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Financial Stability Report 2024

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COUNTRIES

BE	Belgium
BG	Bulgaria
CY	Cyprus
DE	Germany
ES	Spain
FR	France
GR	Greece
HR	Croatia
IE	Ireland
IT	Italy
PT	Portugal
SI	Slovenia
SK	Slovakia
TR	Turkey

Abbreviations

BARS	Banking Agency of RS
GDP	Gross domestic product
BH	Bosnia and Herzegovina
BHAS	BH Agency for Statistics
BoE	Bank of England
BoJ	Bank of Japan
BLSE	Banja Luka Stock Exchange
CAC 40	Cotation Assistée en Continu (French stock exchange index)
CAR	Capital adequacy ratio
CBBH	Central Bank of Bosnia and Herzegovina
CET 1	Common Equity Tier 1
CHF	Swiss franc
CPI	Consumer Price Index
CRC	Central Registry of Credits
DAX	Deutscher Aktien Index (Index at stock exchange in Frankfurt)
DIA	Deposit Insurance Agency
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
EUR	Euro
FBA	Banking Agency of FBH
FBH	Federation of BH
FED	Federal Reserve System
FTSE	Financial Times Stock Exchange
GBP	Great Britain pound
HHI	Herfindahl–Hirschman Indeks
IMF	International Monetary Fund
KM	Convertible mark
MCO	Microcredit organizations
MFT of BH	Ministry of Finance and Treasury of Bosnia and Herzegovina
NPL	Nonperforming loans
OPEC	Organization of the Petroleum Exporting Countries
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RS	Republika Srpska
RTGS	Real Time Gross Settlement
RRFC	Reference rate for average weighted banks' funding cost
S&P	Standard & Poor's
SASE	Sarajevo Stock Exchange
SRTA	Single Registry of Transactions Accounts
USA	United States of America
USD	Unites States dollar
WEO	World Economic Outlook
WTI	West Texas Intermediate
WTO	World Trade Organization

INTRODUCTION

The CBBH understands financial stability as a situation in which a financial system can absorb shocks without any significant disturbances in its current and future operations, its operating having no negative effects on the economy.

The CBBH's authority to monitor the financial system stability derives indirectly from the Law on the CBBH. The CBBH has an active role in the development and implementation of the policy of stability and sustainable economic growth of BH, through ensuring the stability of the domestic currency and overall financial and economic stability in the country. One of the CBBH's basic tasks is to establish and maintain the appropriate payment and settlement systems as a part of financial infrastructure. The CBBH contributes to the preservation of financial stability through its authority established by law to coordinate the activities of the Entities' Banking Agencies. In accordance with the Governing Board decision, the CBBH participates in the work of international organisations which invest efforts in consolidating financial and economic stability through international monetary cooperation. The CBBH activities in the field of monitoring the financial system stability also include specialised communication with relevant international and domestic institutions, which ensures the continuity of the process of monitoring systemic risks. CBBH contributes to the preservation of the financial stability through its membership in the Standing Committee for Financial Stability of BH.

By publishing the Financial Stability Report, the CBBH strives to contribute to financial stability in BH through:

- Improving understanding and encouraging dialogue about risks for financial intermediaries in the macroeconomic environment;
- Warning financial institutions and other market participants about the possible collective impact of their individual actions;
- Creating consensus on financial stability and improving the financial infrastructure.

Although the Report is focused on the events from 2024, its scope has been extended to include the most important events from the first half of 2025, in accordance with the available data at the time of preparing this document. The Financial Stability Report for 2024 is organised by chapters as it follows. The Summary highlights the most important risks to the financial system stability. The first Chapter presents the main trends and risks from international environment. As part of this Chapter, the main risks from the EU and the euro area are highlighted, and their effects on the banking sector and the real economy of this geographical area are described, with focus on risks that can have an impact on the banking sector and the real economy of BH.

The second Chapter provides an overview of trends and potential risks from the domestic environment that are reflected in the functioning of the BH financial system, including an overview of the fiscal sector main trends and risks. The third Chapter illustrates the effects of the risks identified in the previous Chapters on claims on households. The fourth Chapter focuses on the effects of identified risks on the sector of legal entities. In the fifth Chapter, the effects of risk on the financial sector stability are assessed, with a focus on the banking sector. The sixth Chapter illustrates the basic trends in financial infrastructure: payment systems and regulatory framework. The Financial Stability Report for 2024 includes five text boxes: Assessment of the main macro-financial risks to financial stability, Real estate market, Potential effects of the minimum wage increase on operations of companies in BH, Assessment of banking sector resilience to market risk and the Concept, meaning and methodology for determining system important banks.

Finally, it should be emphasised that this Report addresses exclusively the matters of importance for systemic risk because, in accordance with the laws in effect in BH, the supervision of the operations of financial intermediaries is performed by the competent financial sector supervisors. Its main goal is to indicate the risks coming from the financial system, as well as the macroeconomic environment, and assess the system's ability to absorb these shocks.

SUMMARY

After moderate growth in 2024, the global outlook deteriorated in 2025 due to tightening of trade policies, especially by the US, and increased fiscal uncertainty. The global financial stability risks increased in 2025 due to rising geopolitical tensions, protectionist trade measures and increased economic fragmentation. Financial markets are marked by strong volatility, especially in the energy and currency markets, while the rising price of gold indicates an increased demand for safe assets. In the euro area, the weak economic recovery continued, with persistent weaknesses in private consumption and investment, and slow disinflation, especially in the services sector. In such environment, key risks to global and European financial stability remain geopolitical uncertainty, limited fiscal space and structural weaknesses.

At the domestic level, risks from the macroeconomic environment declined, mainly due to the slowdown of inflation, which came closer to the historical average in 2024. Growth of real net wages and decreased unemployment contributed to the strengthening of personal consumption and the acceleration of economic activity. The real estate market has been marked by strong price growth in the last three years, while banks' exposure to this segment has increased slightly, but still does not represent a systemic risk. On the other hand, the deterioration of the foreign trade balance and the increased balance of payments vulnerability of BH were observed. The fiscal position has weakened slightly due to the increase of the fiscal deficit and the public debt share, but fiscal risks remain under control.

Due to the weakening of inflation and the real income growth, households increased consumption and debt level, while maintaining a dominant orientation towards commercial banks. The growth of lending in the segments of general consumption and housing loans was accompanied by a further decline of the share of non-performing loans. However, an increase of loans at the Stage 2 level of credit risk was seen in the segment of households with a lower repayment capacity. The downward trend of household exposure to variable interest rates continues, with the total household deposits, especially long-term deposits, having further increased.

In the sector of non-financial companies, there has been an increase of the total debt level, both to domestic and foreign funding sources, with external debt taking over an increasing share in the total liabilities of companies. Financing conditions remain favourable due to stable interest rates and the availability of bank credit support. In order to decrease their exposure to interest rate risk, companies have increasingly focused on borrowing with fixed interest rates. Due to the growth of operating income and satisfactory capitalisation, the corporate sector successfully absorbed shocks in 2024. However, challenges in 2025 include weakening external demand, a possible increase of inflation, rising costs due to energy transition and the introduction of carbon taxes on exports to the EU.

The BH banking sector remained stable and liquid in 2024, maintaining positive trends in capitalisation, asset quality and profitability. The strong growth of private sector lending resulted in a narrowing of the negative credit-to-GDP gap and supported the financial cycle recovery. Banks' benchmark interest rates remained at low levels, with the structure of asset sources still dominated by demand deposits. Although the credit risk of the household sector is mostly amortised by the growth of real wages, the growth of general-purpose loans includes potential risks. On the other hand, the corporate sector is faced with greater pressures on their debt-servicing abilities. A potential deterioration of asset quality and an increase of interest rate risk can adversely affect profitability. Nevertheless, the stress tests results show high resilience of the sector, which will be further strengthened by the introduction of a capital buffer for systemically important banks in 2025.

Despite the growth of the balance sheet sum of the non-bank financial institutions sector, their overall role and importance remain limited. The banking sector domination remains noticeable, without major progress in the development of capital markets and non-bank intermediaries. The microcredit sector recorded an increase of assets, but with modest progress in profitability. The leasing sector recorded an increase of profits, while the insurance sector, as the most important part of the non-banking system, recorded a stable growth of premiums. Trading on domestic stock exchanges increased slightly, marked by the dominance of issues of entities' debt securities.

In 2024, the Central Bank of BH fulfilled its legal obligation to maintain appropriate payment systems. Payment transactions were carried out smoothly through the systems of gyro clearing and real-time gross settlement (RTGS). The Central Registry of Credits (CRC) and the Single Registry of Business Entities' Accounts (SRBEA) were maintained, and the transactions through international clearing of payments with foreign countries were carried out smoothly.

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TRENDS AND RISKS FROM THE INTERNATIONAL ENVIRONMENT

1. TRENDS AND RISKS FROM THE INTERNATIONAL ENVIRONMENT

The conditions for global financial stability worsened during 2025, due to the growth of geopolitical tensions, protectionist measures and increased economic fragmentation. After moderate growth during 2024, the global outlook has worsened due to the tightening of trade policies, especially by the US, and growing uncertainty regarding fiscal sustainability. Energy prices and foreign exchange markets remained volatile, and the rise in the price of gold indicates an increased demand for safe assets. A weak recovery was recorded in the euro area, with persistent weaknesses in private consumption and investments. Inflation recorded a downward trend, but inflation in the service sector remained elevated. Geopolitical uncertainty, along with structural weaknesses and limited fiscal space, are key sources of risk for financial stability. The euro area banking sector achieved strong profitability in the previous period, but there were signs of worsening asset quality, especially in the segments of commercial real estate and small and medium-sized enterprises. Interest margins stabilised, while credit demand weakened due to tighter credit standards and reduced growth expectations. The central banks of the leading economies have begun a cycle of monetary policy easing in response to the easing of inflation. Financial markets remain sensitive to sudden shocks, while the appreciation of the euro and corrections in the prices of risky assets reflect increased risk aversion.

1.1. Trends in the international environment

The global economy recorded growth of 3.3% in 2024, with developed countries recording growth of 1.8%, while the group of developing countries recorded slightly stronger growth, amounting to 4.3% (Table 1.1). Inflation recorded a gradual but uneven decline towards the target levels of the central banks. Labour markets have normalised, and unemployment and vacancy rates have returned to pre-pandemic levels. Economic growth has been around 3% in the last few years, and global production has approached its potential. However, during 2025, economic indicators showed a significant decline in global economic prospects. Growing uncertainty regarding the US economic policies and trade restrictions caused a significant deterioration in business and consumer confidence indicators. The latest IMF forecasts (Table 1.1) indicate a widespread slowdown in economic activity in most countries. The outlook for the US and China has been negatively affected by the escalation of tariffs, while growth projections have been revised downwards for the euro area as well. The forecast of slight GDP growth for the euro area is based on the contribution of services and private consumption, and the expected fiscal expansion in Germany.

According to IMF projections from April 2025, the global economy is expected to slow down to a rate of 2.8% this year.

Table 1.1: Real GDP, Annual Growth Rate

	Real GDP, annual growth rate					Change relative to the October 2024 projection
	2022	2023	2024	2025	2026	2025
The world	**3.6**	**3.5**	**3.3**	**2.8**	**3.0**	**-0.2**
Developed economies	2.9	1.7	1.8	1.4	1.5	-0.3
USA	2.5	2.9	2.8	1.8	1.7	-0.5
Euro area	3.5	0.4	0.9	0.8	1.2	0.0
Great Britain	4.8	0.4	1.1	1.1	1.4	-0.1
Japan	0.9	1.5	0.1	0.6	0.6	-0.5
Developing countries and emerging markets	4.1	4.7	4.3	3.7	3.9	-0.3
Russia	-1.4	4.1	4.1	1.5	0.9	-0.4
China	3.1	5.4	5.0	4.0	4.0	-0.5
European developing countries and emerging markets	0.5	3.6	3.4	2.1	2.1	-0.1
Main foreign trade partners						
Germany	1.4	-0.3	-0.2	0.0	0.9	0.1
Croatia	7.3	3.3	3.8	3.1	2.7	-0.2
Serbia	2.6	3.8	3.9	3.5	4.2	0.1
Italy	4.8	0.7	0.7	0.4	0.8	0.0
Slovenia	2.7	2.1	1.6	1.8	2.4	-0.2
Austria	5.3	-1.0	-1.2	-0.3	0.8	-0.3
Montenegro	6.4	6.3	3.0	3.2	3.2	-0.5

Source: World Economic Outlook, IMF, April 2025, CBBH

The US economy recorded surprisingly strong economic growth in 2024, which amounted to 2.8% annually, primarily owing to strong private consumption in the context of a gradual normalisation of the labour market. Consumption was boosted by real income growth, dominated by high-income households, which gained wealth with higher interest, dividends and property income. Sectors sensitive to changes in interest rates continued to face challenges, but began to stabilise as interest rates peaked. Despite high borrowing costs, business investment has been boosted by strong corporate balance sheets. Technology companies in particular have accelerated investment due to the race in artificial intelligence.

After falling during the second and third quarters of 2024, inflation measured by the consumer price index (CPI) began to rise again at the end of the year. Also, the measure of inflation, the deflator of personal consumption expenditures, amounted to 2.5% on an annual basis in December, which is a departure from the FED's target inflation level of 2%.

In 2025, the US administration made a number of decisions on economically influential policies, of which changes in foreign trade policies have the strongest repercussions. The USA has repeatedly announced tariff increases for major trading partners and critical sectors. At the beginning of February 2025, the USA introduced special tariffs for aluminium and steel products, and announced special tariffs on cars and car parts (25%). At the same time, special tariffs (custom duties) were introduced on imports from China, Canada and Mexico. The trade war further escalated on April 2 with the introduction of the so-called reciprocal tariffs (custom duties) with a basic import rate of 10% and higher rates for certain countries. Thus, customs duties on the import of products from China reached the level of 145% in mid-April. Then, during May, a temporary 90-day lowering in tariffs on Chinese goods was announced, which lowered the tariff rates from 145% to 30%, In response, China lowered tariffs on American exports from 125% to 10%. At the same time, a broad framework for a trade agreement between the US and the UK was introduced, signalling efforts to diversify trade partnerships due to the volatile geopolitical environment. The combination of these measures and countermeasures raised US and global tariff rates to a hundred-year high. Policy uncertainty, particularly in the USA, remains high even though financial markets have recovered quickly from significant shocks caused by protectionist policies. The prospects for the US economy were further worsened by the downgrading of the US credit rating[1], which occurred due to the increase in US public debt due to continuous fiscal deficits. According to the latest IMF projections from April 2025, the US GDP growth rate for 2025 has been significantly revised downwards.

After stagnation, the EU economy recorded modest growth during 2024, in conditions of further reduction of inflationary pressures, and owing to the recovery of external demand and exports. Despite the growth of real incomes, private consumption increased slowly, while companies were less willing to invest due to shrinking profit margins and negative business sentiment. In 2024, the EU economy recorded a modest growth of 0.8% on an annual basis. GDP grew at rates of 0.1% to 0.4% quarter to quarter during 2024. Euro area growth projections for 2025 have been revised downwards, indicating that the pace of recovery may be slower than expected.

Increased geopolitical and macro-financial uncertainty led to episodes of financial market instability in April and May 2025, and the continuation of geopolitical tensions could lead to supply-side shocks, inflation and further geo-economic fragmentation. On the other hand, the planned increase in defence spending in the EU could have a positive effect on economic growth if spending is focused on productive investments in European defence industry capacities and research and development. The European Commission's announced "ReArm Europe Plan/ Readiness 2030" aims to strengthen national security across Europe and includes increased public defence funding at the national level, enabling member states to act quickly.

The largest economy of the euro area, Germany, recorded a decline in economic activity for the second year in a row (-0.2%), due to weak domestic and foreign demand for industrial products, combined with high uncertainty weighing on consumption and investment. In addition, the construction sector faced labour shortages and weak domestic demand. The savings rate increased, while credit activity was subdued (insignificant growth), so private consumption did not support economic growth, despite the increase in real disposable income. In March 2025, Germany adopted an amendment to the constitution, which will allow defence spending to exceed 1% of GDP, without an upper limit, as well as the creation of a special fund of 500 billion euros for infrastructure investments over the next twelve years, of which 100 billion euros is intended for the climate transition fund. This law also increased the borrowing limit for provincial governments from 0% to 0.35% of GDP. It is expected that the fiscal expansion will have a positive impact on the growth of the German economy in the coming period.

Leading central banks began lowering their reference interest rates in 2024, in response to a gradual decline in inflation (Graph 1.1). After a series of consecutive increases in the reference interest rate in 2023, the Bank of England kept the reference interest rate unchanged at 5.25% in the first half of 2024, followed by two reductions in the reference interest rate by the end of the year. In the first half of 2025, the interest rate was reduced twice more, to 4.25%.

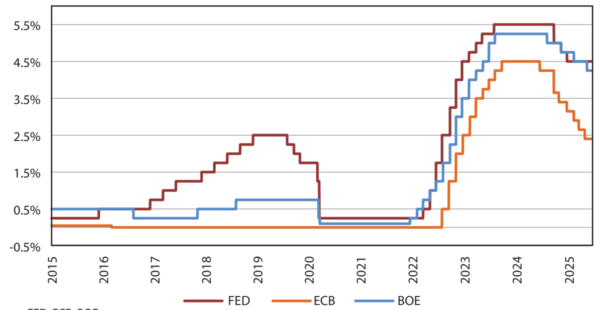
After the period of increasing reference interest rates from March 2022 to July 2023 with the aim of curbing inflation, the FED kept the reference rates unchanged until September 2024, at the level of 5.25-5.5%, which was followed by successive decreasing of the reference interest rates until the end of the year to the level of 4.25-4.50%, which was maintained in the first half of 2025. FED officials estimated that the announced tariff increases were significantly larger and more extensive than expected, and they pointed out the increased uncertainty regarding the direction of trade policy and the extent and duration of the economic effects of that

[1] *In May 2025, the rating agency Moody's downgraded the long-term sovereign credit rating of the United States of America from Aaa to Aa1 and changed the outlook from negative to stable*

policy, which further complicates the conditions in which monetary policy is implemented. Despite the increased risks of rising unemployment, weakening economic growth and additional inflation, FED officials have taken a position to wait with a decision regarding the change in reference interest rates.

In conditions of a gradual decrease in inflation, the Governing Council of the ECB reduced key interest rates three times in the second half of 2024. These decisions were based on an updated assessment of inflationary prospects, inflationary dynamics and the strength of monetary policy transmission. Also, the Asset Purchasing Programme is being reduced at a predictable pace, and the pandemic emergency purchase programme was also reduced by 7.5 billion euros per month in the second half of 2024, while reinvestment within the PEPP was completely suspended from 18 December, 2024. Thus, in June 2024, the ECB began reducing reference interest rates, reducing the rate on deposits by a total of 200 basis points, to a level of 2% (up until and including the June 2025 session).

Graph 1.1: Trend of Benchmark Interest Rates of Leading Central Banks

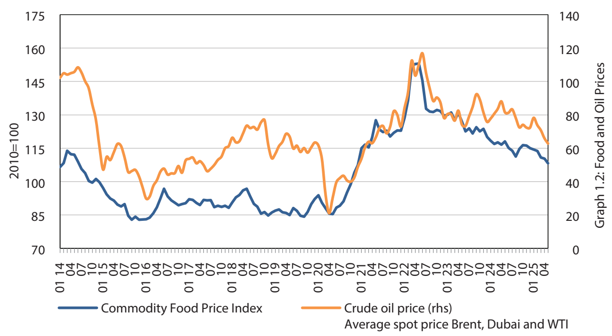


Source: FED, ECB, BOE
Note: The graph shows the upper limit of the FED benchmark interest rate interval;
The graph shows the ECB main refinancing operations rate.
The World Health Organisation declared the pandemic of coronavirus in March 2020;
Bank of England in December 2021 was the first of the key central banks to raise the benchmark interest rate.

The price of oil recorded a decline of about 3% during 2024, and was influenced by two main opposing factors: geopolitical tensions related to the conflicts in the Middle East and Ukraine and concerns about the slowdown in demand in China, the world's second largest economy. Cuts in OPEC+ oil production helped lift Brent crude prices in the first four months of 2024. Brent spot prices hit a peak of USD 93 a barrel in April 2024 amid concerns that tensions between Iran and Israel could escalate into a wider conflict and disrupt global oil supplies. OPEC+ has announced a multiple postponement of production increases in 2024. However, production in non-OPEC+ countries continued to grow, offsetting their production cuts. Weakening global economic growth and reduced demand for fuel in China have contributed to downward pressure on oil prices. The substitution of liquefied natural gas for the transportation of goods and the increased use of electric vehicles in China have limited the growth of transportation fuel consumption. As a result of compensating production and weakening demand, oil prices continued to decline in the second half of 2024, averaging USD 73 per barrel during the fourth quarter.

After a period of relative stability, oil prices have been under the influence of announced tariffs since the beginning of April 2025. Benchmark crude oil prices fell to four-year lows due to a sharp rise in trade tensions and the prospect of higher supplies from some OPEC+ countries. While imports of oil, gas and refined products are exempt from the tariffs announced by the United States, concerns that the measures could fuel inflation, slow economic growth and intensify trade disputes have weighed on oil prices. The downward trend in oil prices continued until the US-UK trade deal was reached on May 8, and the 90-day deal with China on May 12. However, increased trade uncertainty is expected to weigh on the global economy and, consequently, on oil demand.

Graph 1.2: Food and Oil Prices

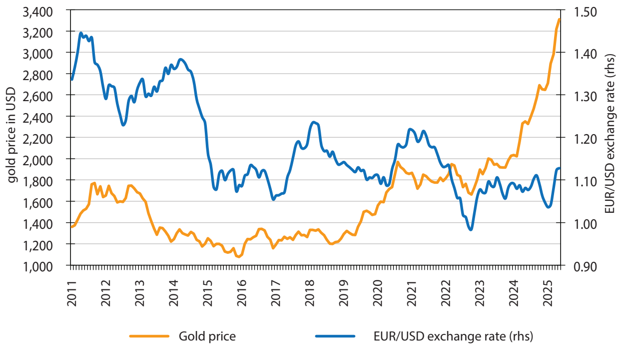


Source: the World Bank

Trends on the world foreign exchange markets in 2024 were marked by the impact of changes in the monetary policy of leading central banks, economic indicators and geopolitical events. The euro appreciated against the dollar until the end of September due to expectations of a more accommodative American monetary policy. The reversal occurs in October, under the influence of the economic weakness of the euro area and expectations of less easing of the US monetary policy due to more favourable macroeconomic indicators. By the end of the year, the US dollar appreciated by around 7% against the euro, despite the FED's reduction in the reference interest rate. The increase in the value of the dollar occurred owing to the stronger than expected growth of the American economy and higher interest rates compared to other developed economies. During the first half of 2025, the euro saw a gradual appreciation against the US dollar, reflecting growing concerns about US fiscal sustainability and renewed trade tensions. Expansionary fiscal measures and a growing budget deficit in the USA have eroded investor confidence in the US dollar, while new tariffs and geopolitical uncertainty have further reduced its appeal. Assets denominated in US dollars were not a safe haven, which was the case in previous episodes of financial turbulence. Due to the key role of the US dollar in international trade and financial transactions, these developments significantly contribute to increasing uncertainty in the global macro-financial environment.

The change in risk perception was reflected in the price of gold on the world market. In 2024, the price of gold recorded a marked increase due to various factors, such as purchases by central banks, the reduction of interest rates by the American FED, geopolitical instability in Ukraine and the Middle East, and uncertainty in global financial markets. The LBMA gold price reached 40 new record highs during 2024, and the annual average price was USD 2,388 per ounce, an increase of 23% compared to the 2023 average price. Central banks continued to buy gold, while demand from other investors also increased, as geopolitical tensions and economic weakness encouraged investment in gold as a safe haven. Renewed trade disputes between the US, China and the EU, as well as speculation on the futures market, led to record gold prices in April 2025. During May, there was a downward correction in the price of gold due to a slight reduction in geopolitical tensions, but it is still at an extremely high level (Graph 1.3).

Graph 1.3: Gold Price and EUR/USD Exchange Rate



Source: the World Bank, Bloomberg

1.2. Overview of the main risks in the EU and the euro area

The key sources of risk and vulnerability for the financial stability of the euro area are increased geopolitical uncertainty, weak fiscal fundamentals and slow economic growth, which cause concern about the sustainability of public debt in some euro area countries, and credit risk in certain segments of the corporate sector, which can threaten the quality of bank assets.

Geopolitical uncertainty could materialise in the form of very negative effects on economic activity and financial market stability, as well as risk aversion. Uncertainties regarding US policies (trade and fiscal policy, financial regulation and the environment) and the possible escalation of military conflicts are particularly relevant.

1.2.1. Effects on the banking sector

Euro area banks achieved high profitability in 2024 and retained a significant portion of their profits in capital, which contributed to maintaining stable capitalisation indicators. The revenues of European banks exceeded expectations, which led to an increase in the value of bank shares. Growth was driven by strong income from fees, net interest income, and increased business efficiency through investments in artificial intelligence and digital transformation. Nevertheless, a slight decline in the profitability of most banks is expected in the coming period, considering that following the decline in reference interest rates, variable interest rates on loans have already started to decline. Banks expect a further recovery in the demand for loans in all credit segments, especially the segment of housing loans. They also expect lending standards to be eased for home loans, but to be slightly tightened for businesses. However, the overall decline in net interest income is likely to remain limited, as markets expect interest rates to remain well above levels prior to the reference interest rate hike cycle, which would support credit spreads. In addition, banks plan to continue efforts to control costs, which have already led to lower cost-to-income ratios in recent years.

The quality of bank assets in the euro area remained at a satisfactory level, given that the NPL ratio is close to the historically lowest level, despite a slight increase in 2024, while the ratio of loans with an increased level of credit risk (Stage 2 loans) is largely unchanged compared to the previous year. However, in the commercial real estate loan segment, asset quality continues to deteriorate, albeit at a slower pace than last year. The quality of loans to SMEs deteriorated slightly, while the quality of consumer loans also showed a slight weakening, as late payments increased in the fourth quarter of 2024, although the NPL ratio remained largely unchanged. Banks face the possibility of a further decline in the quality of assets in the segments of loans to small and medium enterprises and consumer loans due to the weakening of the economic outlook. Rising global trade tensions could also increase credit risk in the non-financial sector. The profitability of companies may be negatively affected by the application of tariffs in some production segments that are heavily exposed to trade outside the EU, such as the production of cars and machinery. Longer-term macroeconomic effects of trade policy uncertainty could lead to a deterioration in the quality of banking assets, although with a greater impact on banks with significant exposure to non-EU trade-oriented sectors.

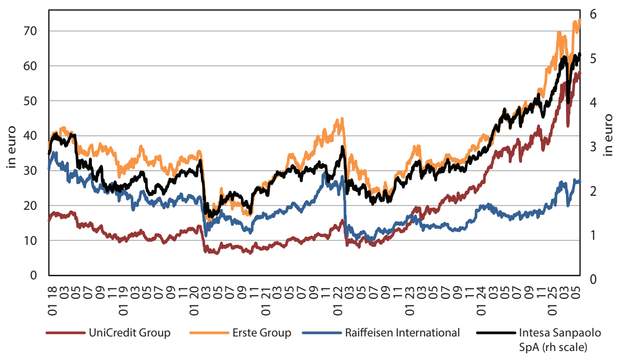
The credit ratings of banking groups operating in BH were affirmed in 2024, while the outlook was unchanged or revised to higher. In March 2025, the rating agency S&P affirmed Raiffeisen Bank's long-term credit rating of A- and changed the outlook from negative to stable, as a reflection of the view that the risk of further financial losses is significantly lower after management's progress in reducing the volume of operations of the Russian branch and the sale of the branch in Belarus, and the assessment that Raiffeisen Bank will sell or write off its share in the Russian branch of AO Raiffeisen Bank in the next 12-24 months. Rating agency S&P predicts that the Raiffeisen Bank Group will achieve a net profit of around 3.8 billion euros in 2024, which is less than the 4.5 billion euros realised in 2023. The expected decrease in profit of around 16% can primarily be attributed to the one-off effects of the sale of the Belarusian Priorbanka d.d. and legal provisions related to the court decision in Russia. Deterioration in asset quality, reflected in a non-performing asset (NPA) ratio of 3.1% in 2023 and an estimated 3.6% in 2024, is mainly the result of challenges in Austria, particularly defaults in the commercial real estate sector. In November 2024, the rating agency S&P revised the outlook for Erste Group Bank AG from stable to positive and affirmed the long- and short-term ratings A+/A-1, owing to the strengthening of capital positions, good asset quality, and stable indicators of liquidity and financing.

In April 2025, the rating agency S&P upgraded Italy's sovereign credit rating to BBB+ from BBB owing to the strengthening of the external position and the reduction of fiscal imbalances, which eases the pressure of economic imbalances that Italian financial institutions are facing. There was also a structural improvement in the profitability of Italian banks, with the average return on equity remaining above the cost of equity for most banks. Italian banks also recorded greater operational efficiency, more resilient business models and improved asset quality. In accordance with the aforementioned change in the sovereign credit rating, the S&P agency upgraded the long-term credit rating of UniCredit SpA and Intesa Sanpaolo SpA to BBB+ from BBB with a positive and stable outlook.

Euro area bank share prices recovered significantly during the monetary tightening cycle, with increased profitability, outpacing market growth and absorbing the market turmoil of March 2023. In 2024, the trend of strong growth in the share prices of euro area banks continued to the highest levels in the last few years due to the good business results achieved this year. The Stoxx Europe 600 bank index recorded a growth of 26%. The European banking sector has been helped by high capital ratios and higher profitability, achieved owing to reduced costs and realised benefits from diversification and high interest rates.

Euro area bank share prices fell at the beginning of April 2025 (Graph 1.4), because the comprehensive tariffs of the American administration raised fears of a trade war and global economic recession. At the end of April 2025, the prices of bank shares again recorded growth, due to very good data on the profit achieved in the first quarter of 2025. Markets stabilised in May due to optimism about a deal between the US and trading partners, especially China.

Graph 1.4: Trend of Local Banks' Mother Banks' Stock Prices



Source: Bloomberg

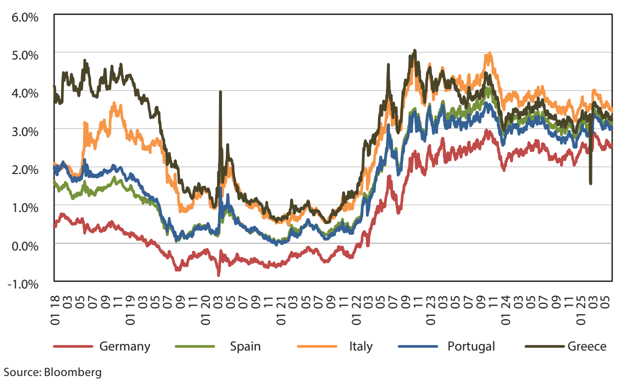
1.2.2. Effects on the real sector

In 2024, the budget deficit of the euro area countries continued its downward trend, while the ratio of the budget deficit to GDP decreased primarily due to a decrease in government spending and a slight increase in nominal GDP. The share of public debt in the GDP of euro area member countries remained at almost the same level as in the previous year. The budget deficit of the euro area countries recorded a decline from 3.5% of GDP in 2023 to 3.1% of GDP at the end of 2024, while the share of public debt in GDP increased slightly from 87.3% of GDP in 2023 to 87.4% at the end of 2024. Rising inflation and tighter monetary policy, which were needed in earlier years to achieve price stability, resulted in an increase in the burden of debt financing in most EU member states. With the maturity of public debt that is refinanced at higher interest rates, the costs of servicing public debt are rising, mainly in countries where the need for short-term refinancing is greater. The high level of public debt and rising interest expenses reduce the space for countercyclical economic policy. Countries with high public debt are unable to launch sufficiently strong investment and stimulus programmes due to the increasing debt burden and may even be forced to reduce primary consumption, which may also have a negative impact on economic growth due to unrealised public sector investments.

During 2024, yields on ten-year euro area government bonds recorded an increase. The ten-year yield on German government bonds (Bunds) rose from around 2% at the beginning of the year to around 2.4% at the end of December, moving between 2% and 2.7%. The slope of the yield curve flattened in 2024, as the reduction in reference interest rates led to a decrease in short-term bond yields relative to long-term bond yields. The difference between yields on ten-year and two-year bonds turned positive again in 2024, both in the USA and in the euro area, after the previous two years, which were marked by an inverse yield curve[2].

In the first half of 2025, the yields of euro area government bonds recorded oscillations under the influence of expectations of further interest rate cuts by the ECB and global tensions. In March 2025, the new German government announced that it would ease the previously tight fiscal rules and the application of the legal "debt brake" in order to increase investment in defence and infrastructure. Market participants anticipated significantly higher government borrowing on the capital market in order to finance the aforementioned investments, which led to a sudden jump in yields. However, the announcements about the introduction of new US tariffs on goods from the EU at the beginning of April had a significant impact on the movement of German government bond yields. These tariffs caused yields to fall due to increased demand for safe investments, which led to a rise in the prices of these assets.

Graph 1.5: Yield of Ten Year Government Bonds



Source: Bloomberg

In the course of 2024, the rating agencies upgraded the sovereign credit ratings of several countries, and affirmed the credit ratings of most other euro area countries and revised the credit rating outlook upward. Rating agencies have upgraded the credit ratings of Italy, Greece, Cyprus, Croatia and Portugal. On the other hand, rating agencies Moody's and S&P downgraded France's sovereign credit rating from Aa2 to Aa3, that is, from AA to AA- with a stable outlook, which was later revised to a negative outlook.

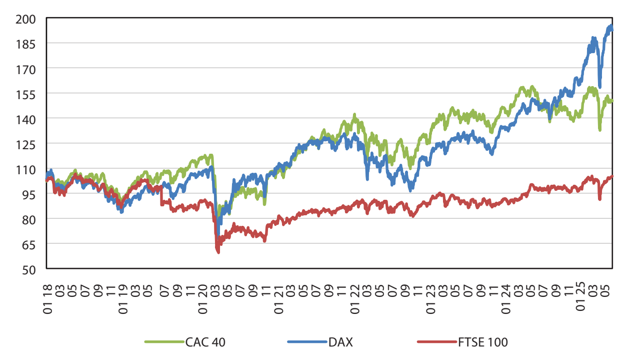
This change reflects growing concern about the state of public finances in France, which is characterised by persistently high budget deficits, rising public debt and limited political consensus to implement significant fiscal reforms. The S&P agency forecasts a growth of the French economy of only 0.8% in 2025, which is a drop compared to 1.1% in 2024, due to weak investments, high public and private debt, and pressures coming from the international environment. Although household consumption remains resilient and the current account largely balanced, structural challenges, including high spending on social benefits and the absence of a primary budget surplus since 2001, will likely affect further growth in public debt, which could reach around 119% of GDP by 2028. Rating agency S&P also downgraded the credit ratings of Lithuania and Latvia and revised the credit outlook of Slovakia and Belgium from stable to negative.

Major stock market indices recorded significant gains in 2024, driven by lower long-term interest rates and strong corporate profits. Shares in almost all sectors were up, although cyclical stocks (those most closely related to the consumer environment and, in particular, the technology sector, along with those related to artificial intelligence) performed particularly well. Nevertheless, the main stock indices recorded episodes of corrections and volatility in the second half of the year, which indicates that the prices of risky assets are particularly sensitive to macroeconomic circumstances. High prices of risky assets increase the likelihood of sudden corrections. Adverse macroeconomic events or a significant downward revision of projected earnings for key technology firms could trigger corrections in risky asset prices.

The strong price growth of European shares recorded at the beginning of 2025 was cancelled in April, after the introduction of tariffs that exceeded the expectations of market participants and led to a review of the potential effects on global supply chains and a revision of earlier financial projections. Globally, stock prices fell sharply, as investors sought a safe harbour amid fears of a possible recession. Customs rates, which exceeded initial expectations, were not fully included in the assessments of most investors and companies, which may result in a slowdown in growth, lower revenues and a decrease in the profitability of the corporate sector. Nevertheless, the values of the global stock market indices subsequently stabilised, and the European indices have recorded gains so far in 2025, stimulated by the good profitability of the banking sector and prospects for higher defence spending.

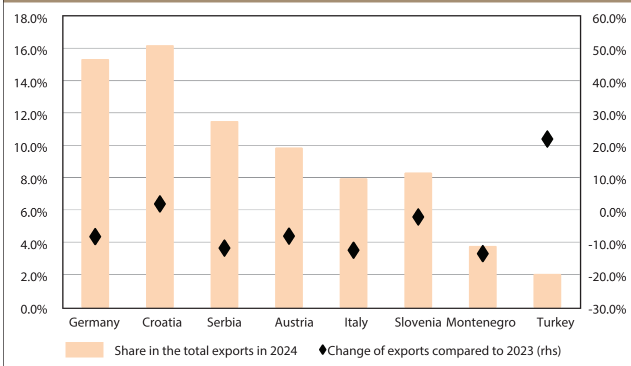
[2] *When yields on two-year bonds are higher than yields on benchmark 10-year bonds, the yield curve is inverted, as investors perceive a higher investment risk in the short term than in the long term.*

Graph 1.6: Trend of Main Market Indices



Source: Bloomberg, by CBBH, average value of market indices in 2017 = 100

Graph 1.7: BH Exports to Main Trade Partner Countries



Source: BHAS, CBBH

The euro area unemployment rate continued to decline in 2024. The weak growth of economic activity in the euro area was mostly not reflected in the indicators of the labour market, which is still strong. Conditions on the labour market stabilised, with quarterly employment growth of 0.2%. The latest data on the labour market continue to point to a solid and resilient employment environment in the euro area. Despite weaker economic activity, the unemployment rate in April 2025 was at the lowest level of 6.2%. However, changes are being observed in the labour markets, compared to the post-pandemic period, given that the demand for labour in key sectors such as manufacturing and construction is declining.

The increase in the value of international trade in 2024 was achieved mainly owing to the growth of trade in services. There was a decrease in the import of goods to the EU in 2024, and accordingly, there was a decrease in external demand for goods from BH. Total exports from BH to EU countries decreased by 3.6% compared to 2023 and amounted to KM 11.8 billion. Exports to almost all countries of BH's main foreign trade partners have decreased (Graph 1.8). The coverage of imports by exports decreased compared to the previous year and amounted to 56.1%, while the foreign trade goods deficit amounted to KM 12.6 billion compared to 11.7 billion in 2023. In 2025, the introduction of a number of new customs measures led to a significant decrease in the projections for global trade in goods, after the continuation of the expansion of world trade in 2025 and 2026 was previously projected, with growth in the volume of trade in goods.

Centralna banka
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БОСНЕ И ХЕРЦЕГОВИНЕ

MACROECONOMIC
TRENDS AND RISKS IN BH

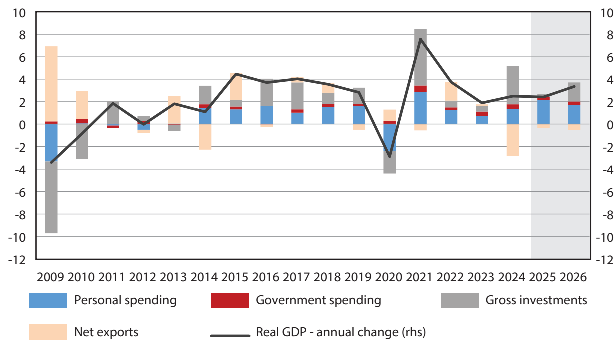
2. MACROECONOMIC TRENDS AND RISKS IN BH

Risks from the domestic macroeconomic environment decreased primarily under the influence of a significant slowdown in inflation, the level of which during 2024 gradually decreased according to the historical average, after strong growth in the previous two years. Along with the reduction of inflationary pressures and a slight decrease in unemployment, the growth of real net wages contributed to the strengthening of personal consumption and the growth of economic activity. The real estate market is characterised by strong price growth in the last three years, while at the same time the banks' exposure to this segment has increased slightly, but it does not constitute a significant part of the loan portfolio, so the risks to financial stability that come from this market have been mitigated. On the other hand, increased external vulnerabilities of the country were recorded due to the weakening of external demand and the slightly less favourable balance of payments position of BH compared to the previous year. Fiscal sustainability risk indicators have slightly worsened due to the increase in the fiscal deficit of the general government sector, and a slight increase in the share of total public debt in GDP, but still indicate a low level of exposure to risks related to fiscal policy.

Economic activity strengthened slightly in 2024 owing to the growth of domestic demand and increased investments, while due to the increased level of risk in the international macroeconomic environment and the insufficient economic growth of the main foreign trade partners from the EU, the weakening of external demand continued. The latest available macroeconomic projections indicate that the intensity of real economic activity in 2025 will remain relatively modest due to the renewed strengthening of inflationary pressures and weak external demand, which will be additionally burdened by the negative effects of changes in trade policies and the strengthening of global protectionism. In 2024, the BH economy recorded an annual growth of real economic activity of 2.5%, whereby the growth was higher by 60 bp compared to the previous year. The slight acceleration of growth was primarily caused by an increase in investment spending, mostly through the realisation of works on large infrastructure projects, and gross investments made a positive contribution to economic growth of 3.4 percentage points. At the same time, personal consumption strengthened owing to the increase in real net wages, and the growth of personal consumption was additionally stimulated by the growth of inflows based on remittances from abroad and favourable financing conditions, which were reflected in strong credit activity in the household sector.

In addition to the significant contribution of personal consumption (1.4 pp), a smaller contribution to the growth of economic activity was made by government spending (40 bp) due to the increase in wages in the public sector, and social and fiscal support measures for the population and areas that were threatened by floods in the last quarter of 2024. On the other hand, industrial production and exports continued to show a downward trend due to heightened geopolitical tensions and a decrease in foreign demand from BH's main foreign trade partners, and the annual real export of goods and services was 3.1% lower. At the same time, due to strong domestic demand, the import of goods and services increased by 2.8%, and the negative contribution of net exports to real GDP in 2024 was quite high (Graph 2.1).

Graph 2.1: GDP of BH (Annual Change and Contribution to Growth by Categories)



Source: BHAS, CBBH
Note: CBBH Projections for 2025 and 2026

According to CBBH projections[3], in 2025 and 2026, total economic activity should achieve real growth of 2.4% and 3.3%, respectively, and it is expected that private consumption will make the most significant contribution to economic growth in the next two years, given wage increases and the expected dynamics of the inflow of remittances from abroad, which significantly contributes to the household's purchasing power and disposable income. Although slight growth in real exports of goods and services is expected in the next two years, external demand will remain relatively weak due to the influence of a high level of geopolitical uncertainty and changes in trade policies, i.e. the fragmentation of world trade. With strong domestic demand, net exports will continue to contribute negatively to economic growth, but considerably less than in 2024.

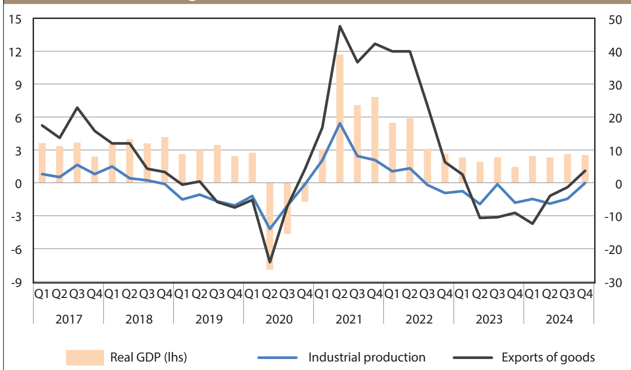
[3] *Spring round of medium-term macroeconomic projections from April 2025.*

Observed by economic activities, favourable economic trends were recorded in the service sector, construction and IT sectors, while due to the continued decline in industrial production and exports, the negative contribution of manufacturing activities to gross value added was higher than in the previous year. The highest growth rate was achieved in the Hotel and Catering industry (9.1%), owing to the continued strengthening of demand for tourism services by foreign and domestic tourists, while the growth of domestic demand influenced the increase in gross value added in the Wholesale and Retail Trade industry (7.5%). Owing to the implementation of large infrastructure projects, as well as the increased volume of works in the field of housing, the growth of gross added value in the construction industry amounted to 6.9%, and a more noticeable growth of gross added value for the second year in a row was achieved in the field of communication and information (6.6%). On the other hand, the decline in real economic activity in the Manufacturing industry was greater than in the previous year (-6.7%) due to the continued weakening of external demand and the consequent reduction in the volume of industrial production in this industry, which was lower by 7.6% on an annual basis. Also, a decline in gross added value was recorded in the production and supply of electricity, gas, steam and air conditioning (-2.9%). Due to the extremely unfavourable hydrological situation in 2024, a drop in the gross production of electricity in hydroelectric power plants was recorded by as much as 25%, while in thermal power plants there was a slight increase in production (0.8%) compared to the previous year[4]. A positive trend was recorded in the production of electricity obtained from renewable sources, where the growth of production in wind power plants and solar power plants was recorded by 36.2%, with the fact that the production of energy from renewable sources accounted for only 4.52% of the total production of electricity in BH in 2024. Given that the largest share of electricity is obtained from production in thermal power plants[5], one of the main challenges in the coming period is precisely related to the transition of the electrical energy sector and the decarbonisation of the BH economy. The introduction of a carbon fee on export products from BH from the beginning of 2026[6], along with weak external demand and high costs of the energy transition in the coming period, will form an additional burden on industrial production and economic activity in BH.

The trend of industrial production decline continued until the end of 2024, with the total volume of industrial production recording an annual decline of 4%, while the export of goods achieved a decline of 3.5% (Graph 2.2). Considering the relatively weak short-term prospects for stronger economic recovery of BH's main foreign trade partners, it is expected that external demand will remain weak during 2025, which will not significantly contribute to mitigating negative trends in industrial production in BH. Nevertheless, positive trends can be expected in certain segments of industrial production, such as in the case of the production of weapons and military equipment, whose share in the total export is very small, but it records significant growth this year, which could continue in the coming period, bearing in mind the increasing investments in defence at the level of the European Union.

Despite the continued decline in industrial production in the processing industry, in 2024 there has still been no significant deterioration in the quality of the credit portfolio of companies operating in this industry, but due to weak external demand and the high costs of the energy transition, which implies a reduction in CO_2 emissions, the possibility of the materialisation of credit risk in many industrial activities will remain elevated, which will also affect key indicators of asset quality at the level of the banking sector in the coming period.

Graph 2.2: GDP, Exports of Goods and Industrial Production (% of Annual Change)



Source: BHAS, CBBH

[4] *Source: BHAS, monthly short-term indicators of energy statistics for 2023 and 2024, author's calculation.*

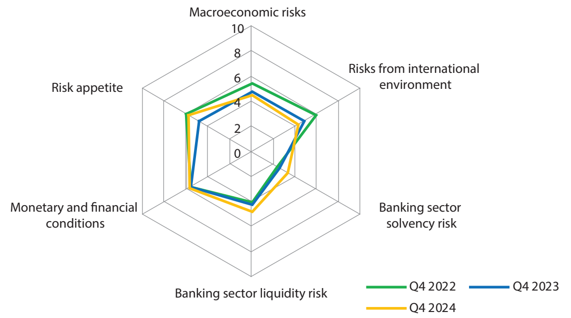
[5] *In 2024, 63% of electricity was obtained from production in thermal power plants.*

[6] *The impact of the introduction of the carbon fee on business operations and the economy in BH is described in more detail in Text Box 3 in the FSR for 2023.*

Text Box 1: Assessment of the main macro-financial risks to financial stability

The assessment of the main macro-financial risks that may arise in the real, fiscal, external or financial sector or as a result of their interconnection, as well as the assessment of monetary and financial conditions and investors' risk appetite, was made on the basis of a quantitative tool (Dashboard). The risk assessment is based on simplified standardisation and ranking of the positions of a comprehensive set of indicators that form the basis for quantifying the synthetic assessment of the degree of risk from different segments of the system. A score in the range of 1 to 5 is an extremely low to slightly moderate degree of exposure to risks; a score in the range of 5 to 8 moderate to slightly high degree of exposure to risks; a score in the range of 8 to 10 is a high degree of risk exposure. The ranking of scores for monetary and financial conditions and risk appetite moves in the opposite direction, i.e. shifts away from the centre of the Graph denote easier monetary and financial conditions, or higher risk apetite.

Graph TB 1: Macrofinancial Risks Chart



Source: CBBH
Note: larger distance from the centre means higher risks, but also improvement of monetary and financial conditions and higher risk appetite of investors

The total exposure of the financial system to macro-financial risks in 2024 remained in the area of mild to moderate degree of risk, but slightly increased compared to the previous year. In the segment of solvency and liquidity of the banking sector, a slight increase in risk was recorded as a reflection of the strong increase in indebtedness of the private non-financial sector and a slight decrease in liquidity indicators, while risks from the international and domestic environment are lower compared to the previous year. Monetary and financial conditions remained favourable, which, along with a slight reduction in exposure to risks in the macroeconomic environment, led to an increase in investors' risk appetite. The main sources of risk from the international environment for financial stability, which are reflected in domestic macroeconomic trends, arise from existing global uncertainties that have been further increased by the strengthening of international trade tensions, and their effects on economic growth in countries that are key trading partners for BH. As a result of weak external demand, increased external vulnerabilities of the country and a slightly less favourable balance of payments position of BH were recorded compared to the previous year. Nevertheless, owing to the strengthening of investment and personal consumption, an increase in economic activity was achieved in BH, which, along with weakened inflationary pressures, a decrease in the unemployment rate, and a gradual increase in real net wages, reduced the exposure to macroeconomic risks in 2024. Projections of economic growth for the next two years are only slightly more favourable, considering that in the coming period, a continuation of the strengthening of personal consumption is expected, while, on the other hand, due to the strengthening of domestic inflationary pressures and weak external demand, economic growth will remain relatively modest.

Trends from global markets that are taken into account when assessing **risks from the international environment to the domestic economy** did not record significant disruptions in 2024, and these risks are also lower compared to the previous year. Already from the first quarter of 2024, the six-month Euribor recorded a downward trend, and after the beginning of the easing of the ECB's restrictive monetary policy in June 2024, this interest rate maintained a downward trend until the end of the year, which ultimately significantly eased the pressure on the growth of borrowing costs on the domestic market. Also, the stabilization of oil prices on world markets, along with a slightly decreasing trend during 2024, contributed to the reduction of inflationary pressures and mitigation of risks coming from the international environment. The reduction in the risk assessment from the international environment was also influenced by the strong growth of foreign exchange reserves, which reached a historical maximum of KM 17.6 billion at the end of 2024, and which represent a buffer against external shocks for the domestic economy. On the other hand, the decrease in exports and the simultaneous increase in imports in the GDP structure increased the country's external vulnerabilities and had a negative impact on the growth of gross domestic product. Given the strong growth in private consumption in 2024, the recorded increase in imports further increased the volume of BH's trade relations with foreign countries, which influenced the increase in the risk assessment of the *import indicator expressed as % of GDP*, which was already in the area of moderate to slightly increased risk. Also, a slight increase in risk arising from the financial linkages of domestic sectors with foreign countries was recorded. Namely, in 2024, the growth of foreign assets of commercial banks continued, and this indicator is also in the area of moderate to slightly increased risk.

The solvency risk of the banking sector is still in the area of a low level of risk, although it is significantly higher compared to the previous year. The strong growth of credit activity and the increase in indebtedness of the household and the corporate sector resulted in an increase in the risk assessment score in the solvency segment. On the other side, all indicators of financial soundness are at a satisfactory level, and the banking sector has increased stability at the end of 2024 owing to strong growth in profitability, good capitalisation, which is continuously accompanied by high liquidity indicators.

Liquidity risk increased as a reflection of a slight decrease in liquidity indicators, while due to stronger lending activity, funding risk also increased slightly, as percentage credit growth exceeded deposit growth of domestic resident sectors in 2024. In the funding source segment, maturity transformation risk for banks remains high due to the continued deterioration in the maturity structure of funding sources, despite a slight increase in interest rates on term deposits.

The assessment of overall monetary and financial conditions increased compared to the previous year, which indicates that borrowing conditions in 2024 were more favourable compared to the previous year, despite the slight increase in interest rates on the domestic market that continued in 2024. Credit standards for approving loans in the household sector were eased, especially in the segment of housing loans, which, along with an increased propensity to spend, resulted in a strengthening of credit activity in this sector. On the other hand, credit standards for loans to non-financial companies were tightened throughout 2024 as a reflection of increased risk perception in the macroeconomic environment, except in the last quarter when the credit standards for companies were eased. Despite the tightening of standards, strong credit growth was achieved in the private non-financial corporate sector. As a result, a reduction in the negative gap measuring the ratio of credit to the private sector and GDP was recorded, as well as an increase in the real money supply, which contributed to an improvement in the overall assessment of monetary and financial conditions. The slight decline in interest rates, accompanied by strong growth in credit activity, continued in the first quarter of 2025, which, together with the continued strong demand for loans from businesses and households and unchanged credit standards, should have a positive impact on the assessment of financial conditions in 2025. As a reflection of the reduction in the level of exposure to risks coming from the international and domestic environment, there was an **increased tendency of investors to take risks** in 2024. Favourable trends recorded in the field of foreign direct investments, portfolio and other investments during 2024 significantly contributed to the improvement of the score in this category.

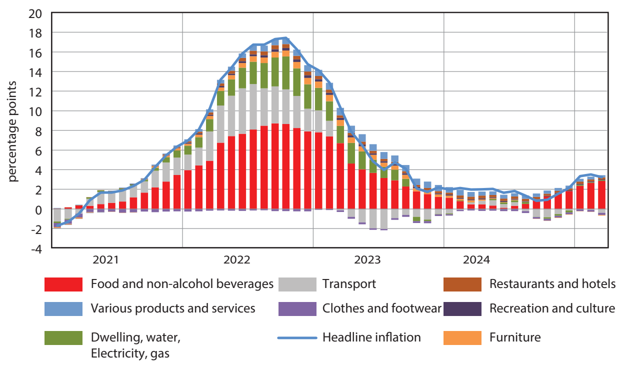
Also, both BH stock exchanges recorded an increase in regular turnover as well as stock market indices compared to the previous year, which in terms of investments in the domestic capital market indicates a higher tendency of investors to take risks. On the other hand, although the increase in real estate prices continued in 2024, the perception of risk by investors did not change significantly, given that demand still exceeds supply in this market.

Headline inflation in BH continued to slow down in 2024 under the influence of price stabilisation on world markets and the disappearance of the base effect, which significantly contributed to reducing risks in the domestic macroeconomic environment. On an annual basis, consumer price growth was 1.7%, and the slowdown in headline inflation was the result of a slowdown in inflation in all main components. The most significant slowdown in price growth was recorded in the food and non-alcoholic beverages category, where inflation slowed from 10.9% in 2023 to 2.1% in 2024. In the housing, electricity supply and other overhead costs category, a significant slowdown in price growth was also recorded compared to the previous year (from 7.8% to 0.1%), but due to the increase in electricity prices for households in the FBH and RS, inflation is expected to strengthen in the coming year[7]. Current inflationary pressures remained the highest in the services category, where price growth in restaurants and hotels amounted to 7.2%, while price growth in the category of other products and services amounted to 5.3%. A more noticeable increase in prices was also recorded in the category of alcoholic beverages and tobacco (4.2%). On the other hand, a slight decrease in prices was recorded in the transport category (-0.8%), which, along with the continuation of deflationary trends in the clothing and footwear category, contributed to a smaller extent to the reduction of headline inflation. The lowest annual inflation rate was recorded in September 2024 (0.8%), after which inflationary pressures began to strengthen again under the influence of rising food prices, which contribute the most to the movement of headline inflation, and a similar trend continued in the first quarter of 2025 (Graph 2.3).

According to the latest medium-term projections of the CBBH from April 2025, inflation is expected to increase in 2025 due to the increase in labour costs through the increase in minimum wages, and due to the already mentioned increase in electricity prices, which will also have an impact on the price growth of other products and services, but a gradual weakening of domestic inflationary pressures is expected by the end of 2026.

[7] *In FBH, electricity prices have increased by 10% for households and by around 8% for small businesses since the beginning of August 2024, while in RS, electricity prices for households have increased by 7.7% since the beginning of 2025.*

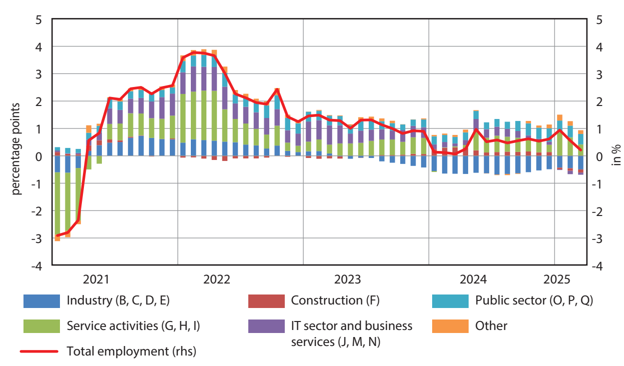
Graph 2.3: Inflation in BH and Contributions of Main Components (the month of the current year compared to the same month of the previous year)



Source: BHAS, CBBH

In conditions of moderate growth in economic activity and slowing inflation, 2024 was marked by a continued increase in real income and mild positive trends in the labour market, which encouraged strong household lending, but also price growth in the residential real estate market. Similar to the previous year, positive trends in the labour market and an increase in the number of employees were recorded in service industries and construction, while in industrial activities where gross value added fell, the number of employed persons continued to decrease (Graph 2.4). According to data from the Labour Force Survey, according to ILO methodology, the average unemployment rate in 2024 is still high (12.6%), and structural imbalances in the labour market significantly limit the potential for higher economic growth in BH[8].

Graph 2.4: Employment by Sectors (Contributions to Growth)



Source: BHAS, CBBH

At the same time, average nominal and real wages continued to grow throughout 2024, which, together with a strong increase in remittances from abroad, had a positive impact on purchasing power and increased disposable income of households. The average annual growth in nominal and real wages was 9.4% and 7.7%, respectively, while inflows from personal transfers amounted to KM 4.12 billion or 8.1% of GDP in 2024, and were KM 379.9 million or 10% higher than in the previous year.

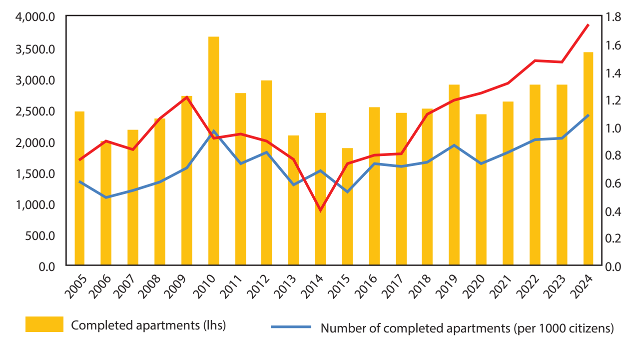
The growth in real income significantly stimulated household lending and the growth in demand for residential real estate, which was one of the factors that led to the continued growth of prices on the residential real estate market in 2024 (Text Box 2).

Text Box 2: Real estate market

Trends in the real estate market in 2024 did not differ significantly from those recorded a year earlier. Stronger demand than the supply of real estate maintained double-digit price growth both in the area of old buildings and in the segment of new housing. Given the expectations of stable economic conditions in Bosnia and Herzegovina and a moderate level of inflation are expected, the demand for real estate will remain high, which, combined with insufficient supply, will continue the pressure on the growth of residential real estate prices. Although the risks to financial stability that arising from the real estate market are still not significant considering the low share of housing loans in the total portfolio of the banking sector, the continuous rise in real estate prices can lead to overheating of this market in the long term and a potential increase in credit risk.

The market dynamics in 2024 were stimulated by the growth of the overall BH economy, an increase in disposable income measured by the strengthening of the labour market (growth in net wages and declining unemployment), a record high amount of remittances from abroad, and still realtively favorable financing conditions. The low supply of real estate on the BH market continued to act in the opposite direction, which, together with the continuous growth in construction prices and high demand, caused a strong increase in residential real estate prices. Despite the fact that the number of completed apartments in BH is nominally growing (the number of completed apartments in 2024 was 3,420, which is the highest number since 2010), the total supply of new residential properties on the market is still low when measured against the total population (Graph TB 2.1).

Graph TB 2.1: The Number of Completed Apartments and Apartments in Construction (per 1.000 Citizens)

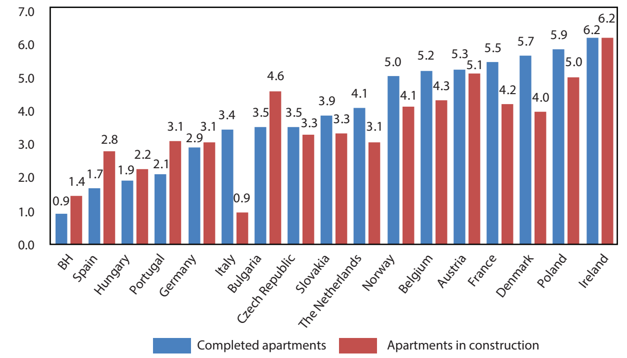


Source: Agency for Statistics of BH

8 *Described in more detail in the Annual Report of the CBBH for 2024.*

As of 2024, the index of newly built apartments per 1,000 inhabitants was 1.08, which is the highest value in the previous two decades. Despite the positive trend, BH remains among the lowest-ranking countries in Europe according to this indicator. Namely, based on data from 2023 (the latest available data for other countries), BH is significantly below the EU average according to both of the above indicators, which clearly indicates a shortage of real estate supply in the market (Graph TB 2.2).

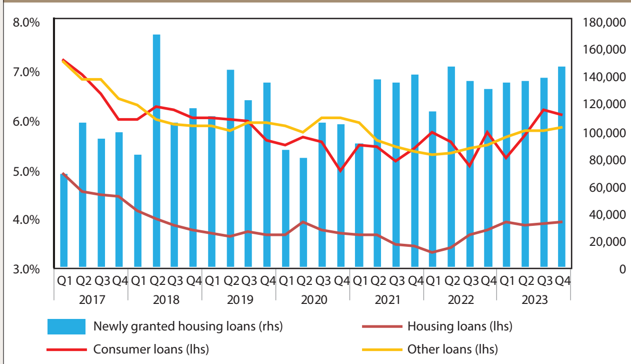
Graph TB 2.2: Index of Completed Apartments and Those in Construction (per 1,000 Citizens), 2023.



Source: Deloitte

On the other hand, the demand for real estate continues to grow, which is increasingly influenced by the strong growth of tourism and the increase in short-term rentals in BH in the last few years. These trends have also increased the economic benefits for property owners. In 2024, commercial banks in BH extended a nominal amount of BAM 703 million in new housing loans, the highest annual value recorded to date. The growth of newly approved housing loans was achieved despite the slight increase in interest rates, supported by the continuous easing of credit standards in the approval of housing loans during 2024. The average weighted interest rate on housing loans in 2024 was 3.95%, and these loans still are the loans with the lowest average interest rate in Bosnia and Herzegovina financial market (Graph 3). As of 2024, housing loans accounted for 11.9% of total loans in the banking sector, suggesting that risks to financial stabiilty stemming from this market segment remain contained. It is worth noting that the quality of housing loans continued to improve, so the share of non-performing loans in total loans in this segment decreased to 0.7%, which is still the lowest share of non-performing loans in total loans compared to other categories of household loans.

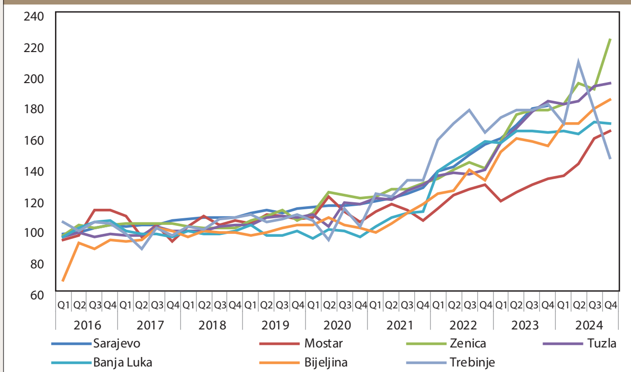
Graph TB 2.3: Interest Rates on Loans to Households and the Amount of Newly Granted Housing Loans



Source: CBBH

Greater demand than supply on the market is one of the key drivers of price growth on the real estate market in 2024 as well. The weighted average price per square meter of newly built residential units increased by 13,1% in 2024 comapred to the previos year. A similar price trend was recorded in the existing housing stock, where the real estate price index recorded a double-digit growth in almost all municipalities/cities included in the index (Graph TB 2.4).

Graph TB 2.4: Real Estate Price Index



Source: CBBH

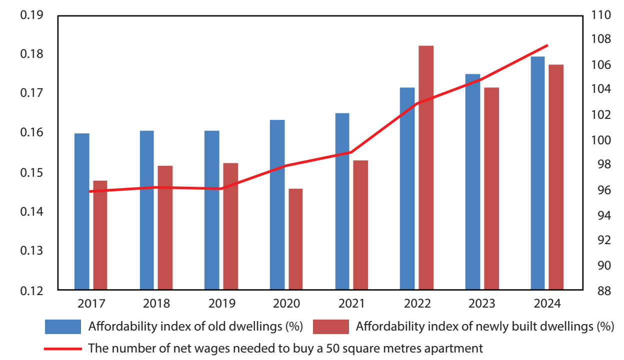
The decline in real estate prices was recorded only in the smallest municipality included in the index (Trebinje), which did not have a significant impact on the overall index. Ultimately, the total real estate price index increased by 11.6%, which is the third consecutive year that the index has recorded a double-digit growth rate, but at the same time it is also the lowest growth rate in the aforementioned three years.

The increase of prices in the real estate market still exceeds the growth of disposable income measured by the amount of net salaries, and consequently there has been no positive reversal in the trend of the real estate affordability index in BH[9].

[9] *The affordability index shows how affordable it is for citizens to purchase residential real estate. It is the ratio of the average price per square meter of an apartment to the average annual salary per employee. A high index value indicates low affordability of purchase and vice versa.*

A slight increase in interest rates on housing loans also had a negative impact on the affordability of real estate purchases. By 2024, the affordability index for the existing housing stock and new construction nearly converged, amounting to 17.7% for new construction and 17.9% for existing housing stock, which means that citizens of BH have to pay an average of 17.7% or 17.9% of their annual income per square meter of apartment, calculated based on the average net salary for 2024 (KM 1,381). Historically, the affordability index shows that the affordability of existing housing stock in 2024 was at its lowest level in the last 15 years, while the affordability of new constriction deteriorated again in 2024 after a slight improvement in the previous year. Due to the limited data series, the affordability index for new construction is available only from 2017 onward. Measured against net salaries, data from 2024 indicate that purchasing a 50-square-meter apartment in BiH requires between 106 and 107 average net monthly salaries (Graph TB 2.5).

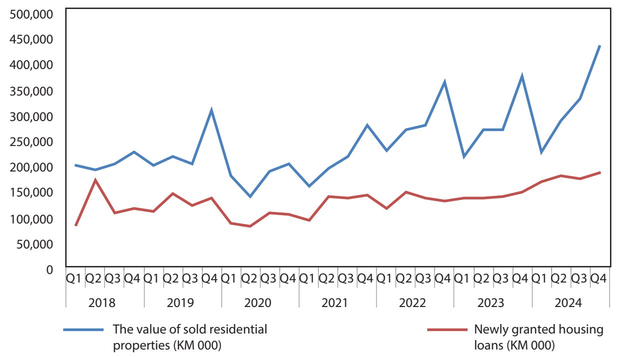
Graph TB 2.5: Housing Affordability Index on BH Market



Source: Agency for Statistics of BH

Such trends indicate the decreasing availability of real estate for citizens with average incomes, which is confirmed by the fact that only about half of the purchase and sale of residential real estate is financed from bank loans (Graph TB 2.6.). The strong demand for real estate is significantly conditioned by demand from the diaspora and increased investment in real estate for rental purposes, which contributes to price pressure and lower affordability of real estate for residential purposes, thus potentially creating an imbalance in this market. However, risks to financial stability have not yet significantly increased, given that one quarter of the household loan portfolio relates to housing loans, which, along with high regulatory requirements regarding income levels and adequate collateral coverage, makes these loans less risky than general-purpose consumer loans, which is why housing loans also have the lowest NPL ratio.

Graph TB 2.6: The Value of Sold Residential Properties on BH Market



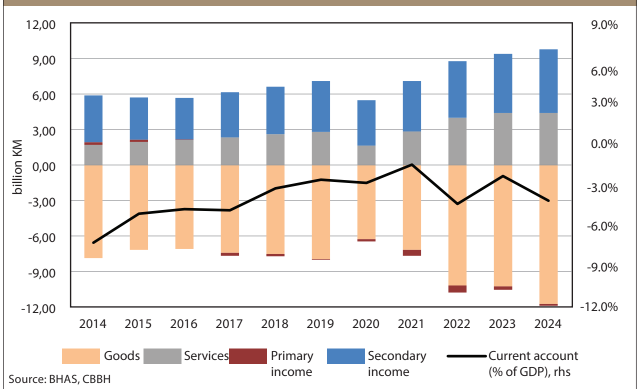
Source: Agency for Statistics of BH

In 2025, the dynamics of 2024 can be expected to continue on the real estate market, without major fluctuations. The stability of the real estate market will be stimulated by the expected economic growth in BH, a moderate level of inflation, and an increase in real disposable income. In accordance with the economic dynamics, the demand for real estate is not expected to decline, the first data for the first quarter of 2025 on the credit activity of the banking sector confirm the mentioned trend. Namely, in the first three months of this year, the amount of newly approved loans for residential purposes is by 33.6% higher than in the same quarter of 2024. At the same time, it is positive to point out that housing loans were extended at the same interest rate as in the previous year, indicating that financing conditions have remaind stable. On the other hand, in 2025, there will probably not be a significant increase on the supply side, so no significant correction of real estate prices, especially in the area of new construction, can be expected. According to data on issued construction permits, the number of apartments planned for construction in the first quarter of 2025 is by 12% lower than in the same quarter of the previous year. It can be expected that real estate prices will continue to rise, with the fact that the intensity of growth will be somewhat weaker compared to the previous three years, when real estate prices grew at double-digit rates.

External vulnerabilities stemming from the country's balance of payments position have increased slightly due to the increase in the current account deficit relative to GDP. The deficit on the current account of the balance of payments at the end of 2024 amounted to KM 2.13 billion (4.15% of GDP) and was higher by 1.83 percentage points compared to the previous year. Increased external vulnerabilities arose as a result of a slowdown in external demand and a drop in exports, which, along with stronger domestic import demand, significantly deepened the goods deficit and influenced the growth of the current account deficit (Graph 2.5). Key surplus categories, services and secondary income contributed to the mitigation of the current account deficit.

On the services account, the increase in inflows based on the arrivals of foreign tourists on the demand side is particularly noteworthy, but at the same time an increase in debit transactions was also recorded, and in the end a modest growth of net inflows based on services of only 0.3% was achieved. The secondary income account recorded a net inflow growth of 7.5% compared to the previous year, which was largely contributed to by the previously mentioned growth in inflows based on remittances from abroad. In addition to the growth in net inflows of the main surplus categories, the reduction in the deficit in the primary income account also had an impact on the mitigation of the current account deficit in 2024. Owing to favourable market conditions, the Central Bank of BH achieved a significant growth in investment income based on the investment of foreign exchange reserves, as a result of which a reduction in the deficit in the primary income account was recorded (44.2%).

Graph 2.5: Structure of BH Current Account

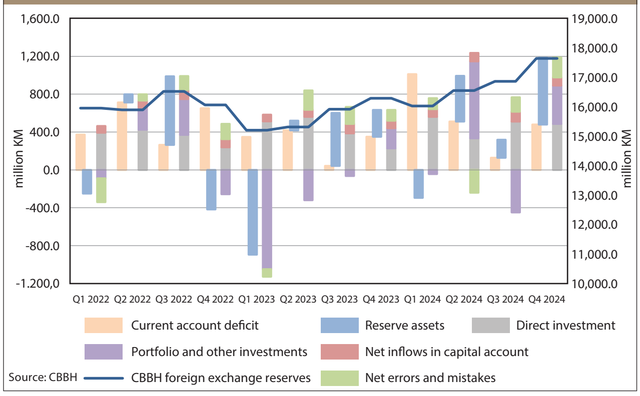


Source: BHAS, CBBH

On the financial account, net inflows almost tripled compared to the previous year, which significantly eased the pressure on the source of financing the balance of payments. Record inflows on the basis of direct foreign investments were achieved in the amount of KM 1.9 billion, with a growth rate of 12.1% compared to the previous year. Within portfolio investments, a net outflow of funds was recorded in the amount of KM 393.8 million, which, as in the previous year, was the result of increased investment in foreign debt securities, which were mostly realised by banks and other financial institutions. Net inflows in the amount of KM 1.12 billion are recorded on the account of other investments. Within the debit items, the foreign borrowing of the government sector increased, as well as an increase in inflows based on currency and non-resident deposits, while the volume of borrowing by the private sector abroad through trade loans and advances remained at approximately the same level as the previous year, and in the end inflows under other investments amounted to KM 1.81 billion. At the same time, in 2024, the investment of resident sectors in foreign assets continued, mostly on the basis of banks' investments in short-term deposits of non-residents, and the total other investments of resident sectors in financial assets, i.e. outflows from the account, amounted to KM 691 million.

Net inflows on the financial and capital account of the balance of payments were higher than the current account deficit in 2024, however reserve assets partially participated in covering the current account deficit only in the first quarter of 2024, when the recorded quarterly current account deficit exceeded the amount of inflows on the financial and capital account of the balance of payments (Graph 2.6). Significant net inflows on reserve assets resulted in a strong annual growth of foreign exchange reserves, and from the aspect of financial system stability, there are no increased risks related to currency and foreign exchange reserves. The coverage ratio of monetary liabilities with foreign exchange reserves at the end of 2024 was 108.4%.

Graph 2.6: Current Account Deficit Financing



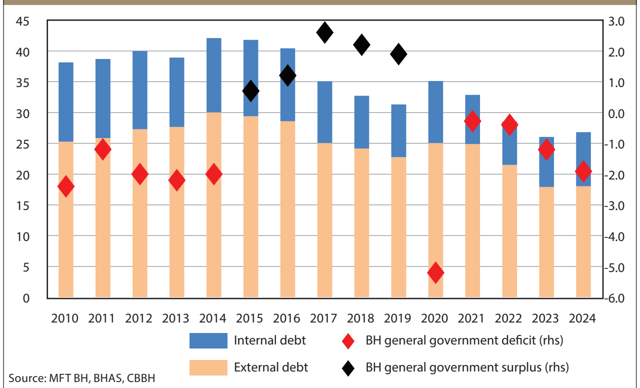
Source: CBBH

In the coming period, the current account deficit could be slightly reduced, given that, according to CBBH projections, net exports are expected to remain at approximately the same level as in the previous year, which, along with the growth of the inflow of the main surplus categories (services and secondary income), could ease the pressure on the current account deficit. However, the country's exposure to external vulnerabilities could still remain elevated given the current geopolitical risks and uncertainties in the global macroeconomic environment.

The fiscal position of the general government sector of BH has slightly deteriorated in 2024, given that a growth in the fiscal deficit at the consolidated level of BH and a slight increase in the share of public debt in GDP have been recorded. However, fiscal sustainability indicators continue to point to a low level of exposure to risks associated with fiscal policy. At the same time, banks' exposure to the Government sector has slightly increased, but is still not high, and the risks to financial stability that come from this sector are not pronounced.

According to CBBH data, the general government sector recorded an increase in the fiscal deficit in 2024 due to a somewhat stronger growth of budget spending compared to the growth of budget revenues, while a significant increase in capital investments was also recorded, which contributed to the deepening of the deficit in this year (Graph 2.7).

Graph 2.7: BH Public Debt and BH General Government Balance (% of GDP)



Source: MFT BH, BHAS, CBBH

On the revenue side, the growth in tax-based revenues (14.2%) is highlighted, which was achieved as a result of strengthening private consumption and continued strengthening of economic activity in service activities, especially in the tourism sector, where high price levels were maintained. There was also growth in revenue based on social contributions (10.3%) as a result of a significant increase in employment and an increase in nominal wages, the growth of which was influenced by the increase in the minimum wage, and the effects of which are described in more detail in Text Box 3. Fiscal challenges are mostly related to the growth of budget expenses, especially since current consumption continues to dominate the budget spending structure of the general government sector, and social benefits and employee compensations have the largest share in said spending, which grew at rates of 10.4% and 8.6%, respectively. In 2024, entity governments continued to implement fiscal measures to mitigate the consequences of inflation for vulnerable categories of the population, which, along with the growth of public sector wage expenses and the growth of subsidies to public and private enterprises, influenced the increase of items on the expense side of the budget. Investments in fixed assets (net acquisition of non-financial assets) due to the implementation of large infrastructure projects recorded a more noticeable increase (17.1%), which also contributed to the deepening of the deficit this year.

Text Box 3: Potential effects of increasing the minimum wage on business operations in BH

At the beginning of 2024 and in the first half of 2025, entity governments in Bosnia and Herzegovina implemented significant fiscal changes with the aim of improving the living standards of the population, reducing the fiscal burden and improving the business environment for entrepreneurs, and encouraging economic growth. One of the most significant fiscal measures implemented by entity governments is the increase in the minimum wage.

The FBH government decided to implement the fiscal changes in stages, although in previous periods the adoption of a comprehensive package of fiscal laws was announced. The first phase related to the implementation of the Decision on increasing the minimum wage entered into force on 1 January 2025, and the minimum wage in FBH was increased from KM 619 to KM 1,000. After the decision to increase the minimum wage entered into force, the Law on Amendments to the Law on Contributions was adopted as the second phase of the implementation of fiscal laws. The said Law foresees a reduction of the total contribution rate for employers from 41.5% to 36%, and the amendments to the law will enter into force on 1 July 2025. According to the new Law, the total cost of contributions, which in previous periods amounted to KM 648.2 at a rate of 41.5%, is reduced to KM 562.3 after the application of the new rate on contributions of 36%. The third phase of fiscal changes, which has not yet been adopted and is currently in the preparation phase, includes the introduction of fiscalisation of transactions[10] (potential inclusion in the fiscalisation system of natural persons and small businesses with an annual income of more than KM 5,000, and electronic recording of data through the Central Fiscalisation Platform (CFP), which is managed by the Tax Administration of FBH); additional reduction of the contribution rate, i.e. changes in the law on income tax; and changes to the law on profit tax, which should start to be applied from 2026.

Unlike FBH, in Republika Srpska the minimum wage was increased a year earlier by KM 200 and from 1 January 2024 it is KM 900. However, in January 2025, the Government of RS passed a Decision according to which the minimum salary will depend on the professional qualification provided for a specific position, and accordingly differentiated the minimum salaries according to the level of education of the employees, as follows: KM 900 - for unqualified and semi-qualified workers; KM 950 – for workers with a third degree of education; KM 1,000 – for workers with secondary education; and KM 1,300 – for workers with a university degree. Differentiating the minimum wage in RS increased social equality on the one hand, but also increased costs for employers on the other.

[10] *The existing system of fiscalisation is based on the Law on Fiscal Systems from 2009.*

Regarding fiscalisation in RS, a new law related to the improvement of the fiscalisation system and the mandatory use of electronic fiscal devices for most activities was adopted in February 2022[11]. In 2024, the fiscalisation of the first group of taxpayers began, while in 2025, the fiscalisation of the second group is planned, that is, the completion of the initial fiscalisation of all taxpayers in RS. The aforementioned will simplify the entire process for those subject to fiscalisation, provide greater transparency to consumers in terms of checking the validity of accounts, and represent a quality tool for the Tax Administration of RS in combating the grey economy. In RS, too, it is expected to pass a law on amendments to the law on contributions, and a law on amendments to the law on income tax, with the aim of tax relief for work.

An increase in the minimum wage in both entities in BH may initially lead to an increase in wages in other class categories as well. Although the real effects of the increase in the minimum wage will be visible only at the end of 2025, in theory, the increase in the minimum wage, combined with stricter fiscal controls, should contribute to the reduction of the grey economy, and as a result of the increase in contributions, increase state revenues. On the other hand, this measure has a significant impact on the increase in the company's operating costs, and in the circumstances of increased macroeconomic risks, there could be a decrease in the profits of companies in BH in 2025. The biggest negative effects of the increase in the minimum wage in the coming period could be reflected in the business and competitiveness of small and medium-sized enterprises in BH, which are significantly more vulnerable and more difficult to adapt to this kind of changes in the business environment. Analysing the business operations of companies by industry, it can be concluded that the increase in the minimum wage will mostly affect companies from manufacturing industries, which mainly employ cheap labour and have low profit margins. This is supported by the fact that the average net salary in the Manufacturing industry, which according to official statistics employed almost a fifth of the population in BH in December 2024, is still significantly below the average net salary in BH. Also, companies from the aforementioned activities, which are predominantly export-oriented, are operating with difficulty for the third year in a row due to the decrease in external demand, turbulence on the international market and reduction in industrial production, and it can be concluded that the increase in the costs of taxes and contributions in the first half of 2025 will form additional pressure on the profitability of these companies.

In February 2025, the FBH government passed a decree on financial assistance measures to preserve jobs in FBH for 2025, which is aimed at low-accumulative activities. The government has foreseen a programme for refunding the already paid part of the salary for employees for the period 01/01 – 31/12/2025, who had salaries of less than KM 800 as of 3 November 2024, with the condition that the employer has a realised net profit from business of less than KM 6,500 per employed worker[12]. However, more significant support, which will relieve the burden on the real sector and partially amortise the increase in employers' costs from the first half of the year, has been provided through a reduction in the tax burden, which will follow in FBH in the second half of 2025. At the beginning of 2025, in RS, a decree was adopted on the awarding of incentives for increasing workers' wages, which refunds funds in the amount of 70% of the paid contributions on the increased part of workers' wages [13]. The aforementioned decree will partially mitigate the costs of salary increases for employers in RS. Nevertheless, the question remains open to what extent companies in BH (especially small and medium-sized ones) will be able to overcome the resulting gap, bearing in mind the strengthening of inflationary pressures, which are affected by the rise in wages, and the intensity and effect of potential additional price growth will be reflected only in the coming period.

Although the Governments of both entities in Bosnia and Herzegovina have provided support to companies through decrees and amendments to the law, it is certain that the increase in the minimum wage in the coming period may partly affect the reduction of the profits of companies in sectors with low profit margins. An important step forward in the continuation of the broader fiscal reform will be the application of comprehensive fiscal laws, which would make a significant contribution to reducing the costs of companies, suppressing the grey economy, increasing the competitiveness of companies, and ultimately to the permanent improvement of living conditions in BH. Due to all of the foregoing, companies will try to adapt their business strategies in the coming period in order to optimise their fiscal obligations and take advantage of tax incentives, and the real effects of changes in fiscal laws on the company's operations will be visible at the end of 2025.

In 2024, the share of public debt in GDP increased slightly, and according to the Maastricht criteria, BH still belongs to the ranks of moderately indebted countries. The total public debt of BH at the end of 2024 was KM 13.74 billion[14] or 26.8% of GDP. Compared to the previous year, the public debt recorded an increase of 6%, while the increase in the internal and external indebtedness of BH was recorded.

[11] *Law on Fiscalisation of RS – „Official Gazette of Republika Srpska", 15/22.*

[12] *Decree on financial assistance measures for private employers, crafts and other independent activities in the Federation of BiH in order to maintain existing jobs for 2025 („Official Gazette of the Federation of BiH", No. 8/25).*

[13] *Decree on the award of incentives to increase the wages of RS workers, Official Gazette of Republika Srpska, No: 4/25.*

[14] *Source: MFT BiH, Quarterly information on the state of public indebtedness of BiH as of 31/12/2024.*

The external debt of BH[15] at the end of 2024 amounted to KM 9.23 billion and recorded an increase of 3.5% compared to the previous year. In 2024, there was an increase in capital investments, and as a result of a more significant withdrawal of funds from foreign creditors in relation to the repayment of the external debt, there was an increase in the external indebtedness of BH.

The increased financing needs of the government were realised through the growth of indebtedness in banks and on the domestic capital market. According to the data of the MFT BH, the internal debt of the governments in BH at the end of 2024 amounted to KM 4.53 billion and an increase of KM 468.4 million (11.6%) was recorded compared to the previous year. Entity governments borrowed the most on the domestic capital market, and during 2024, two BH entities issued a total of KM 1.24 billion of debt securities, which is almost the same issue value as in the previous year[16]. The borrowings of the FBH government on the domestic market in 2024 were realised at slightly higher interest rates compared to the previous year, while the borrowings of the RS government were realised at almost the same interest rate as in the previous year. The banking sector is still one of the largest creditors of the government sector, and the total exposure of the banking sector to all levels of government increased by 32 bp in 2024, and at the end of the year amounted to 8.3% of total banking sector assets (Table 2.1).

Table 2.1: Commercial Banks' Claims on Government Sector

(million KM)

Claims	2020	2021	2022	2023	2024
Central government	**11.6**	**16.1**	**8.9**	**5.9**	**3.8**
Loans	11.6	16.1	8.9	5.9	3.8
Securities	0.0	0.0	0.0	0.0	0.0
Entity level government	**2,439.4**	**2,474.8**	**2,554.7**	**2,764.4**	**3,120.4**
Loans	605.7	584.6	517.8	463.2	542.1
Securities	1,833.7	1,890.1	2,036.9	2,301.2	2,578.3
Canton government	**90.0**	**134.8**	**146.0**	**203.7**	**247.4**
Loans	80.9	125.7	146.0	203.7	247.4
Securities	9.1	9.1	0.0	0.0	0.0
Municipality government	**350.7**	**332.1**	**340.3**	**328.2**	**390.6**
Loans	341.0	323.8	333.5	323.3	387.3
Securities	9.8	8.4	6.8	4.9	3.3
TOTAL	**2,891.7**	**2,957.8**	**3,050.0**	**3,302.2**	**3,762.2**
(% of total assets)	8.2	7.8	7.8	8.0	8.3
Loans	1,039.2	1,050.2	1,006.3	996.1	1,180.6
(% of total assets)	2.9	2.8	2.6	2.4	2.6
Securities	1,852.6	1,907.6	2,043.7	2,306.1	2,581.6
(% of total assets)	5.2	5.0	5.2	5.6	5.7

Source: CBBH

The international credit agency Standard and Poor's (S&P) maintained the credit rating of BH in 2024 at the level of "B+", with a stable outlook, while in accordance with the assessment of the international rating agency Moody's Investor Service, the credit rating of BH was maintained at the level of "B3" with a stable outlook. According to the analyst's assessment, the stable outlook reflects resilient economic growth in BH, a reduction in headline inflation that is approaching the historical average after strong shocks in the past two years, and a favourable fiscal position that is expected to last for the next few years. According to S&P analysts, credit rating can rise if consensus based political decisions are made potentially accelerating structural reforms-including those related to the country's accession to the EU, and also decisions contributing to economic growth.

The fiscal sustainability risk indicators deteriorated slightly compared to the previous year, however they still indicate a low level of financial stability risks coming from the government sector. In 2024, several fiscal stability indicators saw a slight deterioration of their values, staying, however, still within the safe area according to the defined reference levels (Table 2.2). The exception to the safe area, as in the previous year, is the cyclically adjusted primary balance (expressed as a percentage of potential GDP), which is quite expected taking into account the increase of the BH general government sector deficit in 2024. In order to compensate for the increased budget expenses, the Entity governments in BH had increased needs for financing, which they predominantly met by borrowing on the domestic capital market. At the same time, as a result of the capital investments increase in 2024, the withdrawal of funds from foreign creditors exceeded the amount of servicing, i.e. repayment of the foreign loans principal, which resulted in a slight increase of external and total public debt in BH. Thus, the public debt ratio as a percentage of GDP, although slightly increased, was in the safe area at the end of 2024 well below the upper limit of the reference level of fiscal sustainability indicators. The implicit interest rate on government sector debt was deep in negative territory in 2024, although increased compared to the previous year, taking into account the increase of interest costs based on public debt servicing in 2024. As a reflection of the significant slowdown of inflation, the implicit interest rate, which is reduced by the GDP deflator, moved from negative to positive territory in 2024, while the average five-year real GDP growth rate, including also the projections for the next two years, was slightly lower than in the previous year, which also increased the implicit rate value this year. On the other hand, due to the decrease of debt denominated in currencies other than the euro, exposure to currency risk continued to decline in 2024. Also, the average public debt maturity slightly exceeded that from the previous year, which slightly reduced the refinancing risk compared to the previous year.

15 *The external debt of BiH includes the external debt of BiH institutions, the external debt of the entities of FBiH and RS, the external debt of the Brčko District and the external debt of local self-government units.*

16 *The amount includes the values of bonds and treasury bills issued by FBiH and RS on the domestic capital markets.*

Since the debt based on long-term loans with international creditors increased in 2024, and a considerable increase of foreign exchange reserves was recorded, short-term external debt to foreign exchange reserves ratio decreased.

Table 2.2: Indicators of Fiscal Sustainability Risk

Indicator	Safe area	Bench-mark level	Level in BH	Changes compared to the previous year
r - g[1]	<	1.1	-3.77	1.96
Public debt of general Government sector (% of GDP)	<	42.8%	26.8%	0.8%
Cyclically adjusted primary balance (% of potential GDP)[2]	>	-0.50%	-1.7%	0.2%
Financing needs (% of GDP)	<	20.6%	6.2%	0.5%
Share of short-term debt in the total debt, remaining maturity	<	44.0%	16.1%	-1.3%
Debt denominated in foreign currency (non-euro)[3]	<	40.3%	15.1%	-5.7%
Average maturity of public debt (years)	>	2.3	6.6	0.82
Short-term foreign public debt (% of foreign currency reserves),remaining maturity	<	61.8%	6.8%	-0.3%

Source: CBBH, MFT of BH, BHAS, BH Fiscal Council, IMF, Ministries of Finance of FBH and RS, CBBH

Notes:
[1] r Implicit interest rate on government sector debt minus the GDP deflator (moving average for five years); g - real GDP growth rate (moving average for five years)
[2] For 2024, the IMF projection from April 2025 was used
[3] Calculation of the public debt denominated in foreign currency does not include a part of the public debt denominated in euro due to the fixed rate of the local currency and euro

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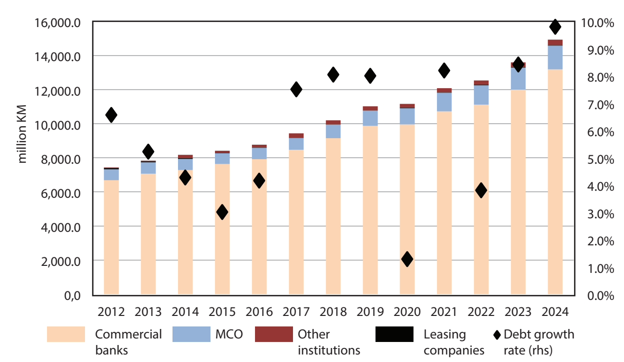
БОСНЕ И ХЕРЦЕГОВИНЕ

HOUSEHOLDS

3. HOUSEHOLDS

The households' increased propensity to consume, brought about by the inflation pressures weakening and the real wages growth also led to increased demand for loans and increase of household debt in 2024. Households continued to borrow mainly from commercial banks, with the debt increase recorded in the categories of general consumption loans and housing loans. The trend of decreasing non-performing loans in the total loans of the household sector continued, however some households faced problems in regular servicing of their liabilities, which is reflected in the increase of loans at credit risk level 2 in the category of general consumption and housing loans. The declining trend of the households' borrowing with a variable interest rate or a fixation period of up to one year continued, although at a lower intensity compared to the previous year. At the annual level, there was an increase of the total household deposits, in all categories of maturities. **In 2024, the increase of the household sector debt continued, driven by increased consumption in this sector.** The total household debt at the end of 2024, according to data from the CRC, amounted to KM 14.9 billion and increased by 9.8% compared to the end of the previous year. Traditionally, the largest part of the household debt refers to loans in commercial banks, which recorded a growth of 9.9% in 2024 compared to the previous year. The debt with these financial institutions accounted for 88.3% of the total debt, still making the largest contribution to the growth of the total household debt. The household debt with microcredit organisations also increased, being higher by 8.6% compared to the previous year according to data from the CRC. The household debt to leasing companies in 2024 remained negligible (Graph 3.1).

Graph 3.1: Household Debt towards Financial Institutions

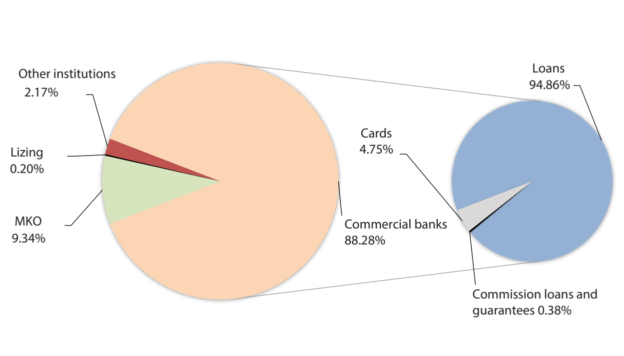


Source: CRC, CBBH

The structure of household debt with commercial banks by type of debt did not change significantly in the past period, with an increase of all types of claims registered in 2024.

The growth of the total claims on households mainly resulted from the increase of household debt based on standard loans from commercial banks. The share of debt based on standard loans in the total household debt with commercial banks stayed by far the highest at 94.9% (Graph 3.2).

Graph 3.2: Household Debt by Institutions and Type of Debt, in 2024



Source: CRC, CBBH calculation

In 2024, a slight increase of the number of active payment cards was recorded. An increase of the total used part of the authorized card overdraft amounts was also recorded, as well as the average household debt per payment card. The number of registered payment cards in 2024 was higher by 1% compared to the previous year, mostly due to the increased number of credit cards. The approved overdraft amounts for all types of cards were increased, so that the total approved overdraft amounts of all active cards increased by 5.6%. The used part of the overdraft amounts of all active cards increased by 2.7% compared to the previous year. (Table 3.1)[17]. The average household debt on credit cards decreased by 5.2% in 2024 compared to 2023, as this form of borrowing includes high interest rates, while the average debt on debit cards increased by 4.6%. Since the approved overdraft amount on debit card is most often determined by the amount of average monthly income, the used part of the card overdraft amount can be used as an indicator of the household spending in relation to the level of their income. The average debit card debt at the end of 2024 amounted to KM 557, representing 40.3% of the average net wage in 2024.

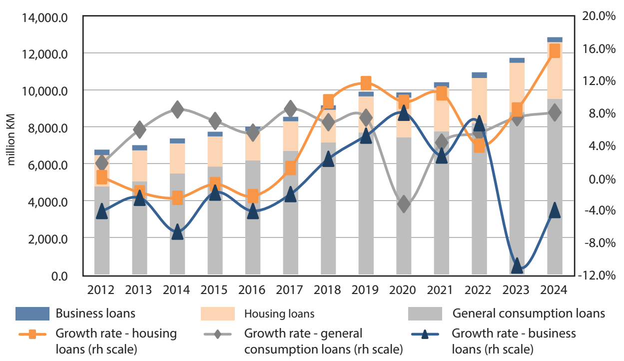
[17] *The analysis did not take into account debit cards without an approved overdraft amount and for which there is no household debt, which banks recorded in the CRC.*

Table 3.1: Claims on Households, Cards								in KM
	Number of active cards		Approved amount		Used amount		Debt per card	
	2024	Annual change	2024	Annual change	2024	Annual change	2024	Annual change
Debit cards	672,994	-1.7%	1.018.799.988	5,3%	374.550.011	2,9%	557	4,6%
Credit cards	277,889	5.8%	378.989.207	6,1%	166.186.668	0,4%	598	-5,2%
Deferred payment cards	168,682	4.8%	193.855.313	6,0%	45.243.720	9,8%	268	4,8%
TOTAL	**1,119,565**	**1.0%**	**1.591.644.508**	**5,6%**	**585.980.399**	**2,7%**	**523**	**1,6%**

Source: CRC

A growth in indebtedness was registered for all types of loans in 2024, except for business loans. As in previous years, the structure of receivables from households is dominated by loans for general consumption, which also include receivables from all types of cards. The structure of loans to households remained almost unchanged compared to the previous year (Graph 3.3), the largest share in total household loans still taken by general consumption loans (74%), followed by housing loans (24%), while the remaining part refers to business loans (2%). General consumption loans continued to grow at the rate of 8% in 2024. The growth of general consumption loans was driven by an increase of consumer optimism, given the inflation slowdown and improved labour market indicators such as real wage growth and decreased unemployment. In 2024, housing loans recorded a significant growth of 15.7% compared to the previous year, and their share in the total loans increased by 1.3 percentage points. The described developments in the real estate market (Text Box 2) have influenced the growth of demand for housing loans in the recent few years. In addition, general consumption loans have been used to a lower extent in recent years to finance housing needs, resulting in increased demand for housing loans. Due to the introduction of regulatory limits in terms of the duration and amount of general-purpose and replacement loans, along with the continuous growth of real estate prices, general consumption loans have become less and less suitable for financing housing needs in the last few years. Household debt based on loans for business activities recorded a decrease of 4% in 2024, its share in the total household debt decreasing by 30 basis points.

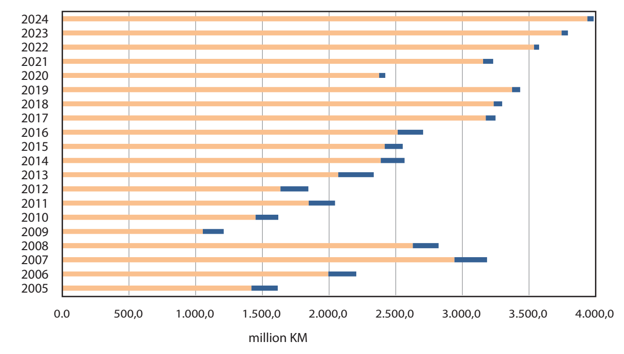
Graph 3.3: Loans to Households by Purpose and Credit Growth



Source: FBA and BARS, CBBH calculation

According to the CBBH data, in 2024, KM 4 billion of newly approved loans to households were recorded, which is an increase of 5.1% compared to the previous year, indicating increased banks' lending during the past year. In 2024, the amount of granted or rescheduled loans for the household sector was higher by KM 192.8 million than in 2023, with no evident change in demand regarding loan maturities (Graph 3.4).

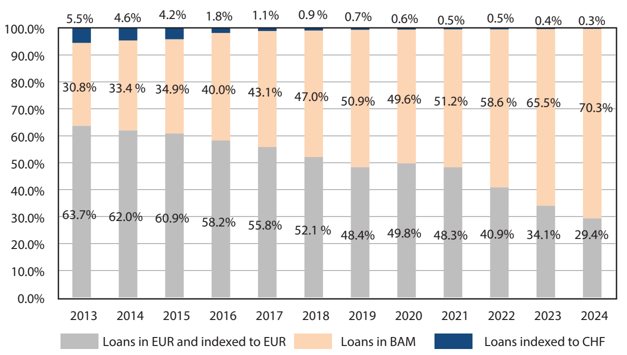
Graph 3.4: New Loans to Households



Source: CBBH, calculation by CBBH

In the currency structure of loans to households, the share of loans indexed to euro in the total loans continued to decline. Although, there is actually no risk of an increase of loan- based obligations due to the exchange rate changes in the monetary regime of the currency board for households with indexed loans, such trends can be assessed as positive. Funding from predominantly domestic sources also has an impact on this trend. In recent years, there has been a noticeable downward trend of the share of loans in foreign currency and indexed loans in the total household loans, which continued in 2024 (see Graph 3.5). According to the data from the CRC, loans in EUR currency and loans indexed to EUR in 2024 decreased by 5.3%, while loans in KM increased by 17.7%.

Graph 3.5: Currency Structure of Loans to Households



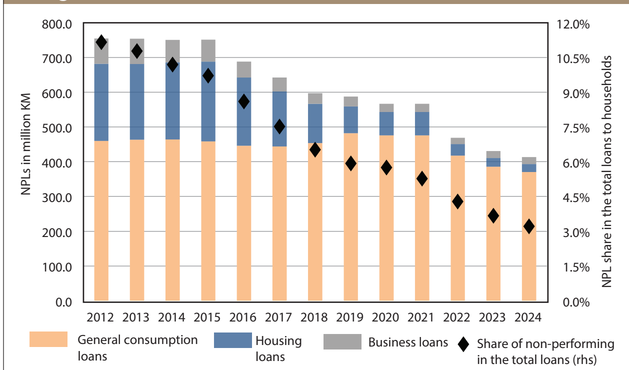
Source: CRC

Growth of both short-term loans and long-term loans in all maturity buckets was recorded in 2024. Household debt in EUR and with currency indexation to EUR recorded a decline in the categories of maturities over 5 years, while debt in KM recorded a significant increase. Looking at the maturity structure, the largest household debt is in the form of loans with contractual maturities of over ten years, followed by loans with maturities from five to ten years (Table 3.2). The strong growth of loans in KM in the category of maturities over 10 years is the result of high demand for residential real estate properties and the growth of real estate prices recorded in 2024.

The share of non-performing loans in the total loans of the household sector continued to decline in 2024, for the twelfth successive year. The share of non-performing loans in the total loans at the end of 2024 decreased by 46 bp compared to the previous year amounting to 3.2% (Graph 3.6). In 2024, an increase in loans extended to households, coupled with a decrease in the amount of non-performing loans, contributed to the improvement of the non-perfroming to total loans indicator. The improvement of the household sector loan portfolio quality, as in previous years, was the result of activities carried out by banks, such as accounting and permanent write-offs of non-performing loans and more efficient credit risk management. Observing the trend of non-performing loans by purpose, non-performing loans for general consumption at the end of 2024 recorded a decrease of 3.9% compared to the end of the previous year, while non-performing loans for housing construction in the observed period were lower by 7.8%, and non-performing loans for business activities recorded a decrease of 4.7%.

In 2024, an increase of loans in credit risk level 2 was recorded in the amount of KM 36.5 million or 4.4%, of which the largest part is related to the increase in the general consumption category of KM 21.2 million or 3.1%, and housing loans in the amount of KM 10.6 million or 8.5%, which indicates that the repayment of some loans was in delay and credit risk in these categories increased.

Graph 3.6: Non-performing Loans in Household Sector by Categories



Source: FBA, BARS, CBBH calculation

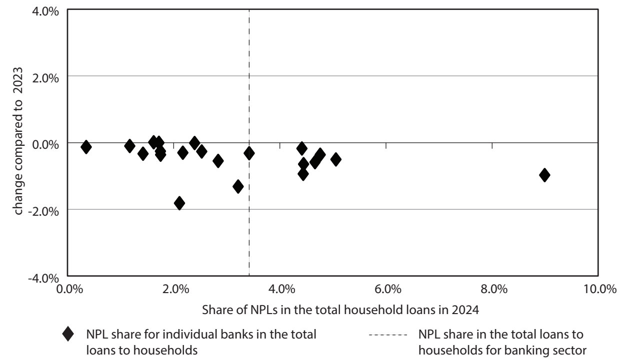
Table 3.2: Loans to Households, Maturity and Currency Structure

Maturity/Currency	Remaining debt and due uncollected principal, thousand KM							
	KM		Foreign currency loans and indexed loans				TOTAL	
			EUR		Other loans in foreign currency			
	2024	Annual change	2024	Annual change	2024	Annual change	2024	Annual change
Up to 1 year	69,979	4.9%	4,760	8.9%	0	0.0%	74,739	5.2%
1 - 3 years	253,048	7.4%	55,146	4.9%	3,555	-3.1%	343,749	17.8%
3 - 5 years	665,326	12.6%	97,992	8.8%	22,939	-0.4%	788,256	12.0%
5 - 10 years	2,861,356	10.1%	607,890	-10.0%	11,103	-16.8%	3,484,349	6.0%
Over 10 years	4,913,970	23.8%	2,896,917	-5.4%	1,009	-17.0%	7,811,406	11.1%
TOTAL	8,763,679	17.4%	3,662,704	-5.7%	40,606	-1.6%	12,502,499	9.8%

Source: CRC

Observing the loan portfolio quality in the household segment by individual banks, it is evident that the share of non-performing loans in the total household loans decreased in 2024 for almost all banks in the sector, including the banks with the highest concentration of non-performing loans (Graph 3.7).

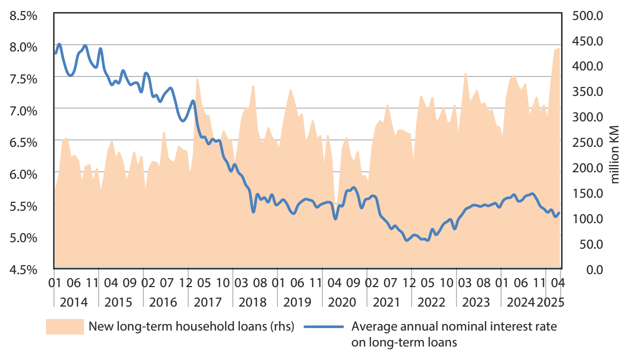
Graph 3.7: Non-performing in the Total Loans to Households, by Banks



Source: FBA, BARS, CBBH

Interest rates on household loans recorded a slow growth in 2024, while a slight decline was recorded in the first quarter of 2025. The interest rates growth was reflected in the increase of the average annual nominal interest rate on long-term loans in 2024, which was 5.57% and was higher by 13 basis points compared to the previous year (Graph 3.8).

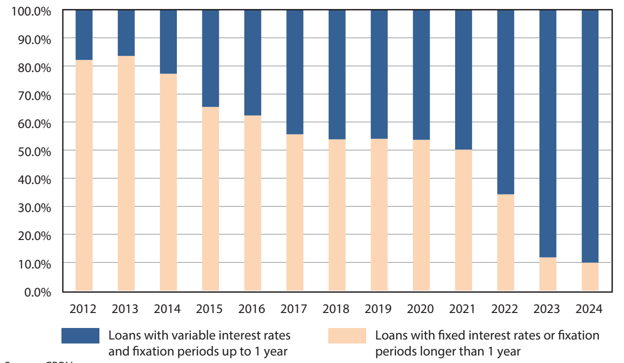
Graph 3.8: New Long-term Loans and Average Weighted Interest Rates



Source: CBBH

Interest rate risk in the household sector was mitigated, by increased volume of lending at fixed interest rates or by extending the interest rate fixation periods. The trend of declining share of loans with variable interest rates or fixation periods up to one year in newly approved household loans continued in 2024, its intensity being somewhat lower than in previous years. In 2024, loans with variable interest rates or fixation periods up to one year accounted for 9.9% of the total newly granted loans to households, which is lower by 1.9 percentage points than at the end of 2023 (Graph 3.9). The same trend continued in the first four months of 2025, so the share of loans with variable interest rates or fixation periods up to one year in newly approved household loans fell to 9.2%.

Graph 3.9: New Loans according to the Interest Rate Fixation Period



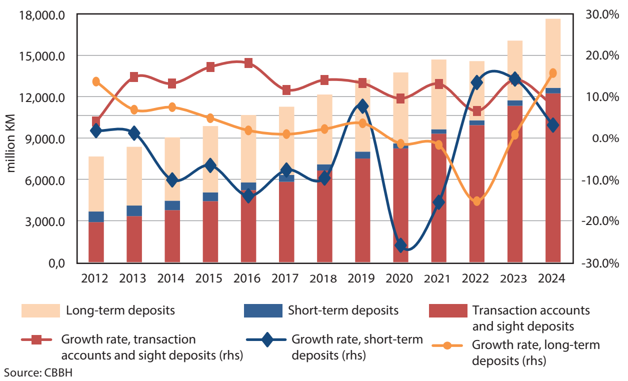
Source: CBBH

In 2024, there was an increase of the total household deposits, including funds in transaction accounts and short-term and long-term term deposits. The total household deposits at the end of 2024 amounted to KM 17.7 billion. The structure of deposits by maturity remained dominated by transaction accounts and sight deposits, which reached the value of KM 12.2 billion, accounting for 69.3% of the total household deposits. The largest growth of 15.7% was recorded in the category of longterm deposits, unlike previous years when the highest growth was recorded in transaction accounts and sight deposits, because households, due to the decline of inflation in 2024 and its impact on disposable income, were more inclined to enter into new longer-term deposit contracts (Graph 3.10). However, long-term deposits accounted for 28.4% of total deposits.

Annual deposit growth has been stronger than credit growth during the past five years, with the exception of 2022, when there was a slight decline of the total household deposits, due to the shock of a sharp withdrawal of deposits from banks, following the outbreak of the war in Ukraine and the problems faced by the Russian Sberbank group. The constant increase of deposits primarily resulted from the resilience and stability of the domestic banking system, which, along with a reliable deposit insurance system, provides a guarantee to households for keeping their funds in bank accounts. Since there are limited opportunities and possibilities for investment in the capital market, households keep most of their savings in the form of deposits with commercial banks. The revival of the capital market, the development of the secondary capital market and new instruments for investing free funds would affect the growth of competition, and the potential growth of deposit interest rates.

According to the data of the Deposit Insurance Agency of BH for 2024, in the categories of deposits that exceed the amount of insured savings deposit of KM 70 thousand, there is a higher growth of the number of concluded contracts. Deposits in the category of over KM 70 thousand in the observed period recorded an increase of the number of concluded deposit contracts of 14.7% compared to 2023, and an increase of the amount of deposits of 9.8%. On the other hand, deposits up to KM 70 thousand recorded a decrease of the number of concluded contracts by 1.7%, while the total amount increased by 9.6%. Of the total number of deposit accounts, only 1.7% refers to deposits over KM 70 thousand, but they account for 43.5% of total household deposits (KM 7.7 billion). This indicates a noticeable financial inequality among households in BH, given that a very low number of depositors have high amounts of savings, which is common in countries with the same or similar levels of development as ours. Survey data on non-financial assets of households in BH are not yet available, and on the basis of them a broader social and economic picture would be obtained in terms of ownership of non-financial and financial assets, debt, net wealth, income and consumption of the households of BH.

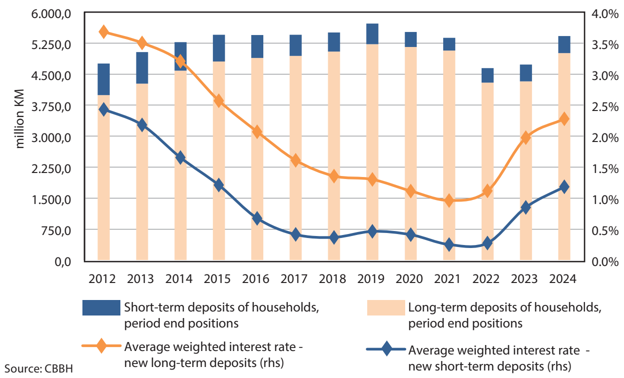
Graph 3.10: Household Deposits by Maturity



Source: CBBH

Interest rates on household deposits, having been at exceptionally low levels in the last few years, began to increase significantly in 2023. This trend which continued in 2024, albeit at a slower pace. The weighted average interest rate on household deposits with contractual maturity (term deposits) in 2024 was 2.13%, which is higher by 31 basis points than in 2023. The weighted average interest rate on long-term deposits was 2.28%, which is higher by 30 basis points, and the interest rate on short-term household deposits was 1.18%, which is higher by 33 basis points compared to the previous year (Graph 3.11).

Graph 3.11: Term-deposits of Households and Interest Rates on Deposits



Source: CBBH

Centralna banka
BOSNE I HERCEGOVINE
Централна банка
БОСНЕ И ХЕРЦЕГОВИНЕ

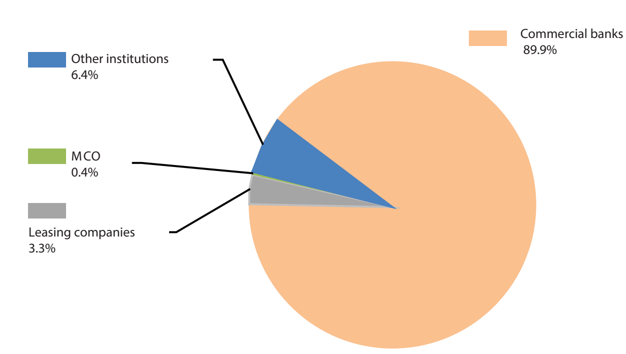
COMPANIES

4.COMPANIES

Although the risks from the domestic and international macroeconomic environment which corporate sector was exposed to were higher in 2024, the total debt of the non-financial companies sector towards domestic financial intermediaries in 2024 recorded a significant growth. Also, the years long growth of external debt of companies has continued, taking an increasing share in their total debt structure. Traditionally, in the financing of business activities, the corporate sector mostly relied on the credit support of banks, which in 2024 extended loans at only slightly higher interest rates, and it can be concluded that the financing conditions of non-financial companies in BH have stayed favourable. In order to reduce exposure to interest rate risk, companies to a significant extent decided for fixed-rate borrowing. The growth of operating income of non-financial companies and satisfactory capitalisation indicate that ultimately, companies successfully mitigated the risks which this sector was exposed to, which contributed to the reduction of the level of non-performing claims in banks and adequate capacities for further borrowing. However, in the coming period, the key risks to the company's operations are the continued weakening of external demand with the expected increase of inflation pressures in 2025, as well as significant investments in energy transition and the transition to renewable energy sources, which may result in a significant increase of companies' operating costs and question the corporate sector's ability to properly service its obligations. Also, an additional burden on the business of companies will be the introduction of a carbon fee on exports to the EU.

The total debt of the non-financial companies' sector towards domestic financial intermediaries in 2024 recorded a higher increase compared to the previous year. According to the CRC data, the total legal entities' debt towards all groups of financial intermediaries at the end of 2024 amounted to KM 16.4 billion, which is by 10.1% higher than in the previous year. Measured as a share of GDP, the total corporate debt towards all groups of financial intermediaries was 32% of GDP. The corporate sector debt can be observed mainly as a debt towards banking sector. Taking into account the underdevelopment of other financial market segments, the primary source of funding for companies in BH are banks. The banking sector share in the total corporate debt accounted for even 89.9% of the corporate debt to all groups of financial intermediaries in BH, with borrowing on the capital market staying insignificant (Graph 4.1).

Graph 4.1: Claims on Companies by the Type of Debt at 2024 End



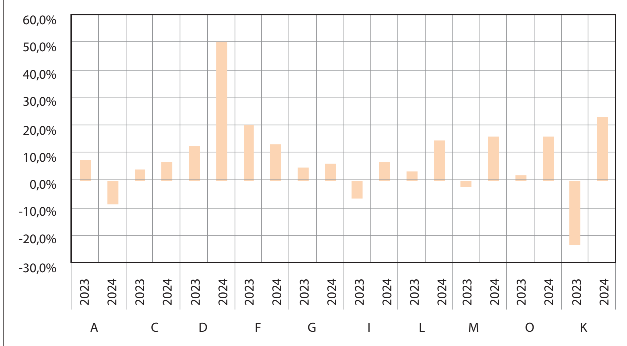
Source: CRC, CBBH

According to CRC data, the total debt of legal entities towards banks in BH at the end of 2024 was 29% of GDP. In the structure of bank claims on legal entities, the claims based on standard (short-term and long-term loans) and revolving loans accounted for the most significant part of the total claims, while exposures based on guarantees, letters of credit and factoring accounted for a smaller part of the total claims, having no systemic importance. The share of legal entities' debt towards microcredit organisations and leasing companies remained negligible in the total debt.

Although economic activity in 2024 recorded only mild and moderate growth, stronger corporate credit growth was recorded in most economic industries. The total banking sector exposure to legal entities amounted to KM 12.9 billion, and was higher by 9.7% than in the previous year. By economic activities, BH banking sector exposure has been traditionally the highest towards the companies from the activities of *trade* and *manufacturing industry*, which accounted for 51.8% of the total banking sector exposure to all legal entities. Resulting from continued strong expansion of tourism and increased volume of services, the most significant contribution to the modest growth of real economic activity in 2024 was made in the activities of *hotel and catering industry* (9.1%) and *trade (7.7%),* so it can be concluded that the overall economic activity is becoming increasingly dependent on service sector. Due to increased economic activity, companies from these industries also recorded an increase of loan-based debt in banks. After the last year's decline of loan-based debt, the companies from the professional, scientific and technical activities recorded an increase of liabilities based on loans, as well as an increase of gross value added.

On the other hand, in 2024, the most export-oriented manufacturing activities recorded a decline of gross value added due to the continued slowdown of economic activity in the EU, as well as global geopolitical tensions, which resulted in a decline of demand in the markets of BH's main foreign trade partners. The exception to this is the production activity *of mining and quarrying*, which recorded a significant annual growth rate, but its share in the total gross value added is negligible. Companies in this industry recorded a decrease of loan-based debt and a decrease of production output, which indicates a gradual contraction of this industry. The most affected companies were those from *manufacturing industry*, which recorded the largest decline of real economic activity (6.7%). Within manufacturing industry, which contributed most to the overall decline of industrial production in 2024, the decline of the production output of finished metals had the greatest impact, as a direct consequence of the global decline of demand for steel. However, the debt of companies from *manufacturing industry* increased by 7.1% compared to the previous year. The prospects for a stronger economic recovery of the main foreign trade partners in the coming period are quite pessimistic, and a significant recovery of industrial production in BH cannot be expected without the recovery of external demand, which may lead to the materialisation of credit risk in BH banking sector in the coming period, taking into account the high level of bank exposure to the companies from manufacturing industry. On the other hand, gross value added in *construction* recorded a stronger growth (6.9%), which can be explained by a significant increase of the production output in construction sector during 2024. At the same time, as a result of the growth of the production output and the continued growth of the prices of construction works, the companies in *construction sector* recorded a significant increase of loan-based debt in banks of 13.1%. The highest percentage increase of loan-based debt was recorded in companies engaged in *production and supply of electric energy, gas, steam and air conditioning*, due to a significant increase of investments of public and private companies in this activity into energy transition, i.e. investments in the transition to renewable energy sources. Given that these companies are in the first phase of investing in renewable energy sources, and assuming that there is a certain time gap from the moment of investments to the moment of their realisation, an increase of gross value added in activities engaged in the production and supply of electric energy can be expected in the coming period (Graph 4.2).

Graph 4.2: Annual Changes of Claims on Companies by the Selected Activities



Source: FBA, BARS, CBBH

Legend:
A - Agriculture, forestry, fishing
C - Manufacturing industry
D - Production and supply of electric energy, gas, steam and air conditioning
F - Construction
G - Wholesale and retail trade, repair of motor vehicles and motorcycles
H - Transportation and warehousing
I - Accommodation and catering (hotel and catering industry)
K - Financial and insurance activities
L - Real estate business
M - Professional, scientific and technical activities
O - Public administration and defence, mandatory social insurance

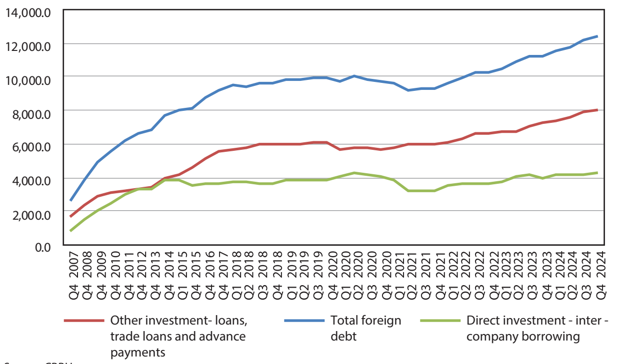
OTHER:
E - Water supply, sewerage, waste management, and environment remedial activities
J - Information and communication
N - Administrative and auxiliary service activities
P - Education
Q - Health and social care
R - Art, entertainment and recreation
S - Other service activities

In 2024, the external debt of non-financial companies in BH continued to record significant growth and take an increasing share in their total debt structure, indicating that non-financial companies in BH meet their business financing needs to a significant extent through external borrowing on foreign market. According to the CBBH data from the Statistics of the International Investment Position of BH[18], the total debt of non-financial companies towards foreign countries, including non-profit institutions serving households (NPISH), at the end of 2024 amounted to KM 12.37 billion, which is higher by KM 1.1 billion or 10% than at the end of 2023. Of the total financial liabilities, 65% of the non-financial companies' debt was related to external debt on the basis of loans and trade credits and advance payments, while 35% of debt was related to direct intercompany borrowing. In 2024, the largest increase of external debt of companies was recorded on the basis of loans, which were higher by KM 791.6 million or 10.8%, while direct intercompany borrowing was higher by KM 335.1 million or 8.4%. The continuous upward trend of this sector's external debt, which has been noticeable in the last twelve years, indicates that non-financial companies in BH meet the needs for financing their operations to a significant extent by external borrowing on the foreign market.

[18] *International investment position is a statistical report that shows the value and composition of the financial assets of residents of an economy, which represents the claims of the observed economy on non-residents, and the financial liabilities of residents of an economy, which represent the liabilities of residents of the observed economy to non-residents.*

The reasons for such trend of non-financial companies' borrowing on the foreign market can be attributed to more flexible financing conditions, as domestic banks have quite strict criteria when approving loans to companies. In addition, the capital market in BH is poorly developed, which further limits financing opportunities (Graph 4.3).

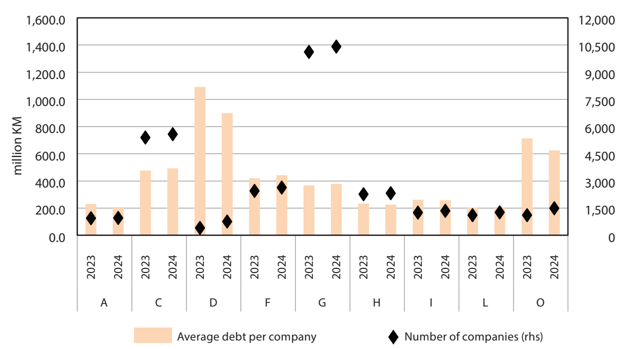
Graph 4.3: Foreign Debt of Non-financial Companies



Source: CBBH

Analysing the average debt per company and the number of new companies, it can be concluded that despite the increased level of macroeconomic risks, there was no significant change in the number and average debt of companies in most activities, which may indicate that operations of companies were stable and without major fluctuations (Graph 4.4).

Graph 4.4: Average Debt of Companies by the Selected Activities in 2023 and 2024



Source: CRC, BHAS, CBBH

In 2024, there was a considerable increase of debt based on standard loans in the corporate sector. Analysing the structure of standard loans according to the agreed maturity, long-term loans continued to prevail, with the average maturity slightly increased. Traditionally, companies in BH have relied to the highest extent on financing their business activities by standard loans. The total corporate debt based on standard loans at the end of 2024 was higher by 10.3% compared to the previous year. In the corporate sector, according to the agreed maturity, as in previous years, long-term loans prevailed, accounting for 92% of the total loans at the end of the year.

According to the CRC data, in 2024 the amount of debt based on standard loans to companies increased in all maturity categories, being the most noticeable in the category of 3 to 5 years in the amount of 15.3%. Also, in 2024, there was a slightly higher increase of corporate loans over 10 years, the share of these loans in the total loans remaining very low. The largest share in the total standard loans (42%) was taken by loans from 5 to 10 years. (Table 4.1). Based on the data on the maturity structure of loans by the remaining maturity, the average maturity increased slightly and amounted to 43.2 months.

Table 4.1: Loans to Corporates, Maturity and Currency Structure of the Remaining Debt

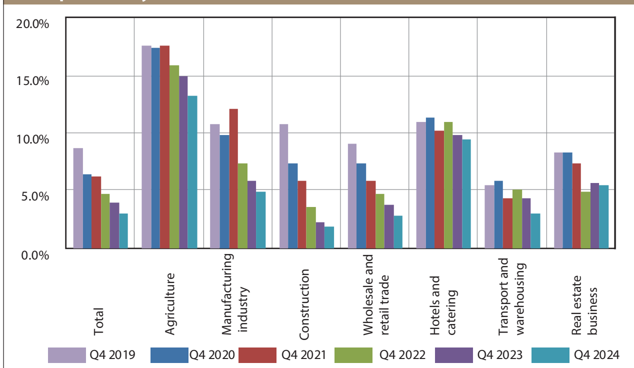
Maturity	Remaining debt and due uncollected principal				
	KM	Foreign currency loans and indexed loans			
		EUR	CHF	USD	TOTAL
Up to 1 year	531,279	259,552	14,235	25,376	830,443
1 to 3 years	1,216,421	300,505	0	0	1,516,926
3 to 5 years	1,442,009	793,529	0	0	2,235,539
5 to 10 years	2,207,005	1,873,214	327	3,729	4,084,274
Over 10 years	519,427	800,571	0	177	1,320,175
TOTAL	**5,916,141**	**4,027,372**	**14,562**	**29,282**	**9,987,357**

Source: CRC

Although credit risk in the corporate sector has not yet materialized, it can be assessed as higher, taking into account that there have been indications of credit risk accumulation in some industries for the second successive year. Also, it is quite certain that the high costs of energy transition, the continued weakening of macroeconomic conditions and decreased external demand with the expected acceleration of inflation in 2025, will lead to an increase of costs in companies, which could ultimately result in the materialisation of credit risk in banks. The share of non-performing loans in the total loans in the corporate sector at the end of 2024 was 3.1%, which is lower by 0.9 percentage points than in the previous year. Looking at the loan portfolio quality by activity at the annual level, a decrease of non-performing loans in the total loans in 2024 was recorded in almost all groups of economic activities (Graph 4.5). Also, the default rate in the corporate sector remained at approximately the same level as in the last year, which indicates that there was no materialisation of credit risk. However, as the increased level of risk in the macroeconomic environment was reflected in the operations of companies in manufacturing industry and in construction industry, in which the highest growth of loans at the level of credit risk 2 was recorded, the credit risk in the corporate sector can be assessed as increased. The share of loans at credit risk level 2 in the total loans of companies from manufacturing industry increased by 1.3%, while the share of loans at credit risk level 2 extended to companies from construction industry increased by 1.4%, compared to the previous year.

Continued weakening of macroeconomic conditions and external demand, with the expected rise of inflation pressures in the coming period, may increase production costs for companies, which could ultimately result in an increase of the default rate and deterioration of the loan portfolio quality in banks. Additional pressure on growth of costs, as well as increase of credit risk for export-oriented companies, is the introduction of a carbon fee (CBAM). The Carbon Border Adjustment Mechanism was described in more details in the last year's Financial Stability Report (Text Box 3). At the end of 2024, at the meeting of the Energy Community Council, Bosnia and Herzegovina asked for the postponement of the implementation of the CBAM for 2027. However, at the end of June 2025, the European Parliament decided that the implementation of the CBAM mechanism would start from 2026, but would be charged from 2027 for 2026. In addition, in accordance with the obligations under the Sofia Declaration agreement, companies in BH will have to continue investing in energy transition, sustainable mobility and circular economy, in order to mitigate the climate change consequences, which will continue to bring about pressure on the growth of costs of companies in BH in the coming period.

Graph 4.5: Share of Non-performing Loans in the Total Loans to Companies, by Activities



Source: FBA and BARS, CBBH

Total income of companies in 2024 recorded a considerable growth, mostly as a result of a significant income increase of the companies operating in service activities. Analysing income by activities, it can be concluded that, on one hand, due to the continued decline of external demand, resulting in a decrease of exports, but also due to the interruption of railway traffic in the last quarter, the income of companies in export-oriented activities recorded a very modest growth or even a decline of operating income. According to data from Dun & Bradstreet, a company that provides information on business and creditworthiness, in 2024, the total income of BH companies grew at the rate of 6.3%. (Table 4.2). Due to a significant recovery of personal consumption and continued price increases, companies engaged in service activities recorded a significant increase in operating income.

As a result of the increase of prices in the real estate market, the largest growth of operating income was achieved by companies engaged in real estate business (55.8%), but the share of the companies from this activity in the total income was very modest, amounting to only 0.5%. Also, due to a very successful tourist season in 2024, a significant increase of income was achieved by companies engaged in hotel and catering (15.07%). Companies engaged in wholesale and retail trade had the largest share of income in the total operating income of companies in BH (45.3%), their growth being significantly higher compared to the previous year, amounting to 8.4%. On the other hand, as a result of the continued decline of the value of electric energy exports, companies engaged in the production and supply of electric energy recorded a decline of operating income for the second successive year. This activity is the only one in which companies recorded income decrease in 2024, while companies operating in the area of manufacturing industry and accounting for a high share in the total business income, recorded a very modest income growth of only 1%. The continued decline of industrial production, the slowdown of the economic activities of BH main foreign trade partners, as well as the continuing geopolitical tensions, were reflected in the exceptionally weak growth of operating income in manufacturing industry. Also, the floods in October 2024 destroyed the key section of the railway line, which had been used for transport of raw materials and finished products. The complete halt of rail traffic in the last quarter of 2024 resulted in a standstill in transport, which partly affected the slow growth of income of export-oriented companies. Risks to the operations of many non-financial companies further intensified due to the expected increase of inflation pressures, unfavourable outlook in foreign trade for 2025, followed by the continued strengthening of geopolitical tensions. In the coming period, these risks will continue to make pressure on the operations of companies from production activities, which could be reflected in a further decline of their income. Additional pressure on the business of companies in 2025 may be the minimum wage increase, which was previously described in details in Text Box 3.

Table 4.2 : Operating Income of Corporates, per Activities

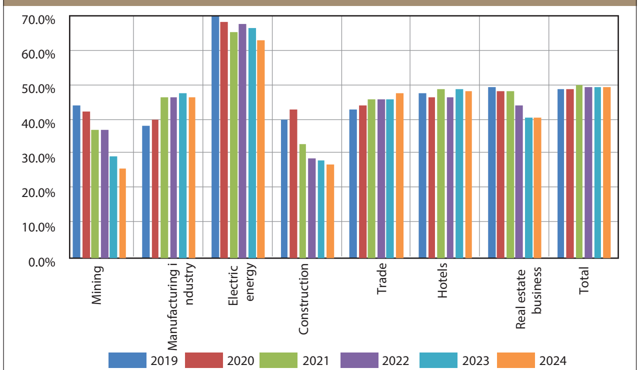
	2019	2020	2021	2022	2023	2024
A- Agriculture	987.05	1,021.06	1,084.89	1,301.57	1,352.28	1,369.87
B- Mining	917.14	909.13	887.78	1,032.47	1,109.50	1,218.70
C- Manufacturing industry	17,661.09	16,302.43	20,686.81	26,095.19	24,958.32	25,217.23
D-Production and supply of electric energy	4,262.78	3,894.63	5,346.12	6,638.80	5,851.55	5,629.02
E- Water supply, waste water management	786.22	769.49	1,048.09	1,098.50	990.38	1,089.10
F- Construction	3,433.65	3,495.23	4,048.00	4,512.36	4,910.98	5,613.02
G- Wholesale and retail trade	31,751.30	28,814.68	34,750.30	42,198.29	44,297.70	47,903.43
H- Transportation and warehousing	2,832.17	2,492.72	2,895.83	3,667.06	3,724.30	3,947.49
I- Accommodation and catering	503.13	286.04	474.67	630.82	772.88	889.38
J- Information and communication	2,387.47	2,389.66	2,745.66	3,107.36	3,412.57	3,682.41
K- Financial and insurance activities	346.52	326.10	382.08	465.55	459.91	549.83
L- Real estate business	229.26	202.08	246.40	287.47	345.26	538.13
M- Professional, scientific and technical activities	1,688.99	1,663.35	1,919.64	2,054.84	2,304.89	2,529.91
N- Administrative and auxiliary service activities	485.77	442.88	565.58	724.89	874.93	1,002.71
O- Public administration and defence	69.73	83.02	106.40	79.72	32.53	39.64
P- Education	133.16	121.47	133.82	156.19	189.61	230.85
Q- Health and social care	1,680.42	1,764.36	2,041.26	2,309.22	2,677.89	2,978.98
R- Art, entertainment and recreation	492.02	434.81	605.26	770.12	941.32	1,038.02
S- Other service activities	96.46	97.40	108.26	127.53	146.76	177.43
T- Activities of households as employers	0.00	0.00	0.00	0.05	0.00	0.00
U- Activities of extraterritorial organizations and bodies	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	**70,744.31**	**65,510.53**	**80,076.84**	**97,257.99**	**99,353.54**	**105,645.14**

Source: Dun & Bradstreet (Company providing the business and creditworthiness information)

Analysing the share of equity in the liabilities of companies by activities, a slight decrease of the share of equity in most activities in 2024 is noticeable (Graph 4.6). However, all activities except *mining and construction* still had capitalisation levels higher than 30%. As a result of years-long cyclical operations of companies in the field of mining and their reduced income, the lowest share of equity in liabilities was recorded in this activity, which in 2024 was further reduced amounting to 25.8%. Also, companies operating in the field of construction record a very low share of equity in liabilities (27.2%), which can be explained by the continuous inclination of companies in this industry to borrow from banks as the most important source of funding for current operations or investment projects. During the last three successive years, in parallel with the growth of the debt of these companies in the banking sector, the share of equity in liabilities decreased to a level below 30%, indicating that the companies' own funding ratio in these activities was very low. On the other hand, although a slight decrease of the share of equity in liabilities was recorded due to more intensive borrowing in 2024, companies operating in hotel and catering industry have had good capitalisation for many years. Also, although companies operating in the field of manufacturing industry have been exposed to high risks for the second successive year, there has been no decline of their capitalisation.

Despite a very slight decrease of the total share of equity in liabilities in 2024, it can be concluded that the corporate sector is still well capitalised.

Graph 4.6: Share of Equity in Companies' Liabilities in Selected Activities



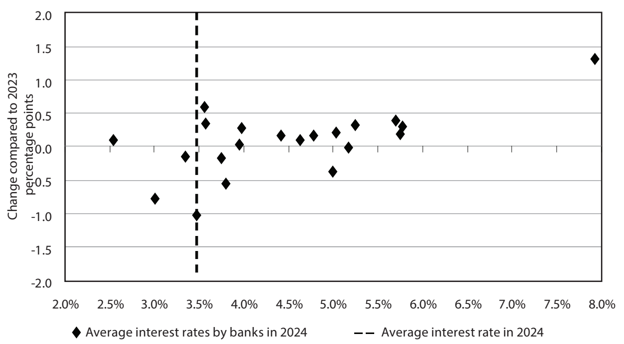
Source: Dun & Bradstreet, CBBH

Interest rates in the domestic market in the corporate sector did not change significantly in 2024. According to the CBBH data, the average interest rate[19] on newly granted loans to the non-financial companies sector in 2024 was 4.36%, which was higher by only 27 bp than the average rate in 2023.

[19] *Interest rate statistics are regularly published on the CBBH website, and for the analytical purposes of calculating the average cost of the corporate sector borrowing, calculation is made, i.e. weighting of interest rates by the volume of approved loans from all categories.*

Observing the borrowing costs by individual banks, a slight and gradual increase of the average interest rate with almost all banks is evident (see Graph 4.7). However, the rise of interest rates was limited, taking into account that a strong spillover effect of both the rise of interest rates in previous periods and the lowering of interest rates in 2024 from the euro area to the domestic market did not occur. The reason for this trend of interest rates on the domestic market can be attributed to the still high competition of banks and the limited number of high-quality corporate clients that banks are willing to lend to. Despite the mild and moderate increase of interest rates that started as early as in the second half of 2022, it can be concluded that financing conditions for the non-financial companies' sector remained favourable throughout 2024.

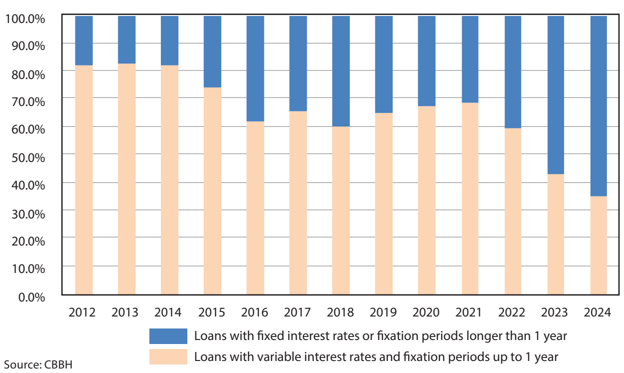
Graph 4.7: Interest Rates on Loans to Companies



Source: CBBH

In 2024, the corporate sector exposure to interest rate risk decreased, due to more intensive loan-based borrowing with a fixed interest rate. In the structure of newly approved loans in 2024, the share of loans with variable interest rates, i.e. an initial interest rate fixation periods up to 1 year decreased, being 35.24% (Graph 4.8). In the circumstances of macroeconomic risks remaining high, companies were inclined to fix the costs at which they could borrow on the domestic market, which facilitates the interest rate risk management, and reduces the refinancing risk.

Graph 4.8: New Loans according to the Interest Rate Fixation Period



Source: CBBH

Compared to the previous year, the corporate sector exposure to currency risk did not change significantly. Currency risk in the current monetary regime is not a significant source of risk to the companies' operations. At the end of 2024, corporate debt based on standard loans denominated in or indexed to euro amounted to 40.3% of the total banks' claims on the corporate sector. Compared to the previous year, their share decreased by 90 basis points. At the same time, the share of loans granted in the domestic currency increased, the residual debt based on these loans accounting for 59.2% of the total corporate sector debt at the end of 2024. The share of debt denominated in other currencies was only 0.4%. According to the maturity categories, the largest part of the debt was denominated in EUR in the category of maturities of 5 to 10 years, while the largest part of the debt was denominated in KM in all other maturity categories.

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FINANCIAL INTERMEDIARIES

5. FINANCIAL INTERMEDIARIES

The total assets of financial intermediaries at the end of 2024 recorded a growth of 9.8%. The banking sector kept the predominating share in the total assets (Table 5.1).

Table 5.1: The Financial Intermediaries Assets Value

	2022		2023		2024	
	Value, million KM	Share, %	Value, million KM	Share, %	Value, million KM	Share, %
Banks [1)]	36,945.3	87.8	39,056.2	87.6	42,919.1	87.7
Leasing companies [1)]	437.0	1.0	525.3	1.2	568.5	1.2
Microcredit organisations [1)]	1,268.7	3.0	1,445.2	3.2	1,651.4	3.4
Investment funds [2)]	1,069.3	2.5	1,041.7	2.3	1,131.1	2.3
Insurance and reinsurance companies [3)]	2,335.0	5.6	2,496.8	5.6	2,657.3	5.4
Total	**42,055.4**		**44,565.1**		**48,927.5**	

Source:
[1] - FBA and BARS
[2] - FBH and RS Commissions for Securities
[3] - Entities' Agencies for Supervision of Insurance Companies, BH Insurance Agency,
CBBH

5.1. Banking sector

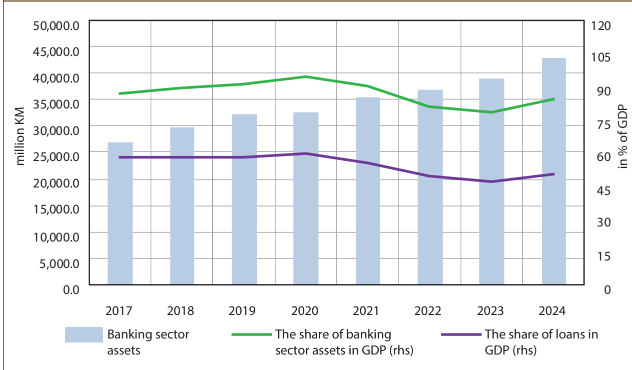
The banking sector of BH remained stable in 2024 and increased its resilience to risks in the circumstances of a moderate recovery of economic activity. The positive trends from the previous year continued, which is reflected in a slow increase of the value of capitalisation indicators, a maintained trend of gradual improvement of asset quality, profitability increase and high liquidity. The maintenance of relatively favourable financing conditions and stable demand resulted in a robust growth of lending to private non-financial sector and a narrowing of the negative gap of the loan to private sector-to-GDP ratio, as well as gradual recovery of financial cycle. The financial cycle should reach its long-term trend by the end of 2025 and continue with the expansion phase. Taking into account the maturity structure and the banks orientation towards domestic sources of funding, the reference rates of the average cost of financing of banks in BH are still at relatively low levels. The maturity structure of the source of funds improved slightly in 2024, but deposits in transaction accounts kept a dominating share in the sources of funds. Increased risks arising from higher global uncertainty related to trade policies and declining external demand, and the expected acceleration of inflation in 2025 will continue to make pressure on the corporate sector's ability to service its liabilities regularly, while credit risk in the household sector is significantly mitigated by real wage growth. However, intensified lending to the household sector, especially in the segment of general-purpose loans, contributes to the credit risk growth in this sector.

The increase of interest rate risk is associated with a potential significant pressure on the growth of financing sources costs, which, together with the strong growth of long-term fixed-rate lending, increases the pressures on the sustainable level of the net interest margin. A potential deterioration of asset quality associated with a weak recovery of economic activity and increased interest rate risk could reduce the banking sector profitability in the coming period. The results of the stress test showed that the banking sector is able to absorb extreme macroeconomic shocks, as well as considerable liquidity outflows. In addition to good capital positions that enable banks to absorb potential macroeconomic shocks, the banking sector resilience will be further enhanced by the introduction of a capital buffer for systemically important banks from mid-2025.

5.1.1. Key trends in banking sector

The growth of the banking sector's assets in 2024 was primarily achieved by intensive lending and the growth of the loan portfolio, as well as an increase of foreign assets and growth of investments in securities. Developments of the total bank assets, as before, were mostly determined by the trend of loans, with the growth of 9.6%, which is the highest credit growth rate in the last fifteen years. The strong credit growth followed several years of quite weak lending activity, which can be attributed to deferred consumption and a decline in disposable income during the high inflation period in 2022 and the first half of 2023. Banks' lending supported the growth of economic activity, with the growth of the total assets and loans in 2024 being higher than the nominal GDP growth, the share of banking sector assets and loans in nominal GDP being slightly higher compared to the previous year (see Graph 5.1).

Graph 5.1: Assets and Loans in Per Cents of GDP



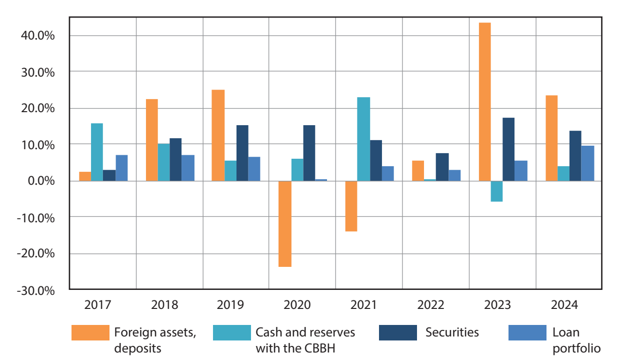
Source: FBA and BARS, BHAS, CBBH calculation

Besides significant credit growth, the key developments of banks' assets include also a 23.6% increase of holdings in foreign banks' accounts, which had the strongest impact on the growth of foreign assets, and a 14.1% growth of the securities portfolio (see Graph 5.2).

Banks' investments in foreign assets by increasing holdings in deposit accounts with foreign banks continued in 2024 due to the continuing high level of interest rates in the euro area, which, among other things, contributed to the interest income growth and an increase of the banking sector profitability in the current year. Cash and reserves with the CBBH, as the most important item of liquid assets, also increased by 4.3% compared to the previous year, however, the growth of liquid assets, as in the previous year, was mostly achieved on the basis of the already mentioned increase of deposits with banking institutions abroad. The growth of the securities portfolio was achieved through an increase of banks' investments in the securities of the Entity governments, with the growth of investments in non-resident securities continuing this year, although at a lower intensity compared to 2023. The growth was partially limited as decisions of the Entity agencies to limit bank exposures to foreign central banks and foreign central governments were in effect[20].

In 2024, the banking sector exposure to government sector increased compared to the previous year, staying still at a moderate level, and therefore the risks to financial stability arising from government sector are not significant. According to the data of the CBBH monetary and financial statistics, the total banking sector exposure to government sector at the end of 2024 amounted to KM 3.76 billion, being higher by KM 460 million or 14% compared to the previous year. In 2024, banks increased their exposure to government sector on the basis of loans to government institutions and on the basis of purchases of the Entity securities, thus the share of government debt in the total banking sector assets increased by 32 bp, to the level of 8.3%. At the level of the entire banking system, the exposure to government sector at the end of 2024 was at the level of 74.3% of the banking system's regulatory capital.

Graph 5.2: Changes of the Most Important Items of Banking Sector Assets

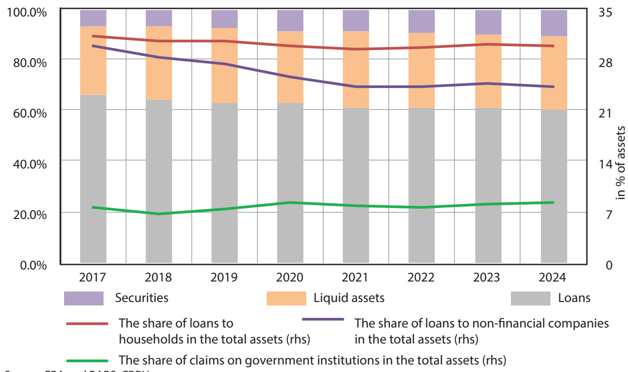


Source: FBA and BARS, CBBH

[20] *In the FBH, the exposure is limited to 100% of the recognised capital, and in the RS to 50% of the recognised capital. At the end of the third quarter of 2024, the BARS adopted the Decision on amendments to the Decision on temporary measures to limit exposures limiting banks' exposures to foreign central banks and foreign central governments up to 50% of recognised capital, applicable from 31 December 2024, "Official Gazette of Republika Srpska", 84/24.*

The acceleration of overall lending was supported by the stabilisation of macroeconomic circumstances, primarily through a decrease of inflation and growth of disposable income, a relatively stable level of interest rates on the domestic market and relaxation of lending standards for household loans, with constant increase of domestic sources of financing. The dynamic growth of the total loans was largely the result of a strong growth of loans to households and non-financial private companies. The total loans at the level of BH banking sector amounted to KM 25.8 billion, and credit growth was achieved in the amount of KM 2.26 billion or 9.6%. Of the total loans, KM 12.84 billion or 50% refers to loans to households; KM 10.44 billion or 40.5% on loans to private non-financial companies, while loans to government institutions accounted for KM 957 million or 3.7% of the total loans. There were no significant changes in the structure, and the share of loans to households, the share of loans to non-financial companies, as well as the share of claims on government institutions in the total banking sector assets remained at approximately the same level as in the previous year (Graph 5.3).

Graph 5.3: Banking Sector Assets



Source: FBA and BARS, CBBH

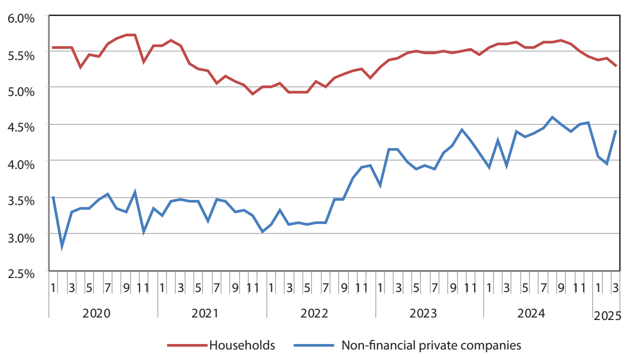
In the circumstances of moderate growth of economic activity, an exceptionally high credit growth was achieved in the household sector (9.5%). Due to the personal consumption increase, general consumption loans increased by KM 708 million or 8%, while the highest percentage growth was seen for housing loans (15.7%), and their share in the total loans slightly increased compared to the previous year amounting to 24%. The strong growth of lending in household sector can be partly attributed to the easing of lending standards, which, according to data from the Bank Lending Survey, was recorded in 2024. The results of the Survey indicate a lower perception of credit risk in household sector throughout the observed period, with the exception of the last quarter of 2024, when the standards for granting consumer and general-purpose loans were tightened compared to the previous quarter. Growth of household demand for housing, as well as consumer and general-purpose loans, was maintained throughout all the quarters of 2024.

At the same time, tightened financial conditions for loans to companies stabilised at a relatively high level throughout the observed period, with the exception of the last quarter of 2024, when lending standards for short-term loans to companies were relaxed. Despite this, lending in the sector of private non-financial companies was more intense compared to the previous year, the annual credit growth rate of this sector being 8.4%.

In 2025, the dynamic growth of household loans is expected to continue, in line with the expected growth of personal consumption, real estate prices and consumer prices. The projected credit growth of private non-financial companies in 2025 is less intense than the growth of loans to households, due to the gradual tightening of financial conditions and the expected increase in interest rates on loans to corporates.

Financial conditions on the domestic market remained favourable during 2024, despite the slight increase in average interest rates recorded on annual basis. The easing cycle of the ECB's restrictive monetary policy, which began in June 2024, began to spill over to financial conditions on the domestic market to a milder extent from the last quarter of the current year. However, it can be concluded that domestic interest rates are still slow to react, given that the key influence on the movement of interest rates in BH is the term structure of sources of funds, dominated by short-term domestic deposits with still extremely low financing costs for banks. In 2024, the average weighted interest rate on loans to households increased slightly by 12 basis points, to the level of 5.58%, while the average weighted interest rate on loans to private non-financial companies increased by 27 basis points, and amounted to 4.36%. From the fourth quarter of 2024, there is a slight drop in interest rates on household loans, which continued in the first quarter of 2025, when interest rates on household loans were reduced by 22 basis points compared to the average interest rate from 2024. The average weighted interest rate on loans to private non-financial companies in the first quarter of 2025 also fell by 22 basis points compared to the average interest rate in 2024 (Graph 5.4).

Graph 5.4: Average Weighted Interest Rates on New Loans

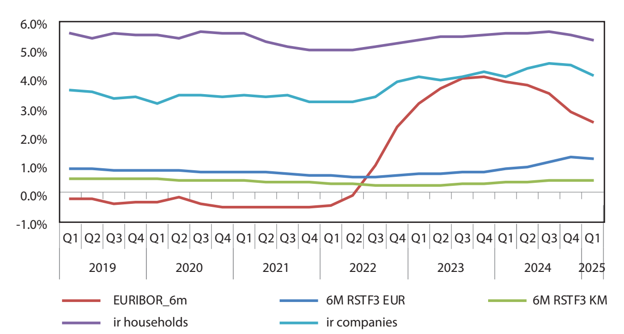


Source: FBA and BARS, CBBH

Since the spillover effects in BH associated with the growth of interest rates in the euro area were much milder and slower, the effect of their reduction is also absent, and domestic interest rates are still slow to respond to the ECB's monetary policy relaxation, which began in June 2024. Domestic banks are able to maintain interest rates on loans at relatively stable levels throughout the observed period thanks to low funding costs, given that the structure of banks' sources is dominated by deposits of domestic resident sectors, which account for as much as 78.8% of the total liabilities of the banking sector. Almost three quarters of this refers to deposits on transaction accounts and demand deposits, whose interest rates are continuously at extremely low levels[21].

The reference rates for the average weighted funding cost of banks in BH also show that there have been no significant changes in the of bank funding cost in BH. Based on the movement of the six-month reference rate for KM and EUR currencies[22], it can be concluded that the cost of bank funding in BH is stable, and that the reference rates of the average cost of bank funding in BH are still at low levels (Graph 5.5). The slight increase in funding costs from the third quarter of 2024 was primarily influenced by funding with special-purpose instruments that banks use to meet the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). As a rule, MREL instruments are always more expensive sources, because they are more risky, that is, they can be converted into capital if necessary or written off in the case of resolution of the credit institution. Average weighted interest rates on term deposits of households and companies increased slightly in 2024. Funding from domestic currency sources is significantly cheaper than from euro sources, and in the last eight quarters, a somewhat more dynamic increase in the six-month reference rate for EUR sources compared to KM sources has been observed. At the end of the fourth quarter of 2024, the 6M RRFC3 for KM was 0.42%, while the 6M RRFC3 for EUR was 1.21%.

Graph 5.5: Trends of EURIBOR and Interest Rates in BH



Source: FBA and BARS, CBBH
Note: 6M RRFC3 EUR and 6M RRFC3 KM denote reference rates for all sources of BH banking sector financing- 6 months households and non-financial companies and financial institutions.

21 *Described in details in the Chapter Households*

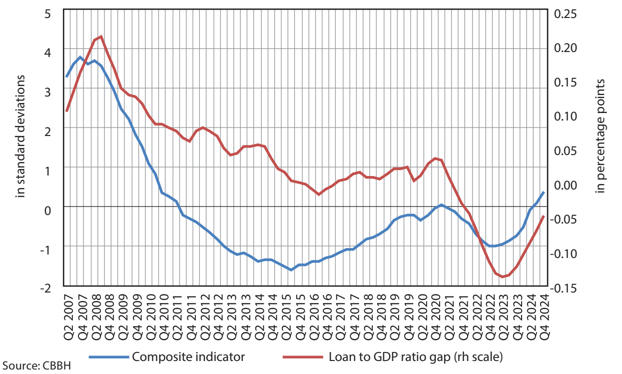
22 *Since October 2023, the CBBH has been publishing RRFC3 for the KM and EUR currencies, and for maturities of 3, 6 and 12 months, on a quarterly basis on the CBBH statistical portal (link: http://statistics.cbbh.ba/Panorama/novaview/SimpleLogin_cr_html.aspx).*

Given the banks' focus on domestic sources, the funding costs of banks operating in the country will remain low in the coming period as long as the structure of funding sources is dominated by transferable and demand deposits.

In accordance with the medium-term projections of macroeconomic developments in the country, a gradual continuation of a slight increase in interest rates on term deposits and an increase in reference rates is expected in 2025. However, the pressure on increasing interest costs on domestic sources of funds is not significant, given that the financial market in BH is still underdeveloped and the possibilities for alternative forms of investment of surplus funds available to households are limited. Also, a very small number of depositors in BH has deposits of significant amounts, while the largest number of citizens' deposits relate to deposits of very small amounts (described in more detail in the Chapter Households), which is why it is realistic to expect that a significant amount of funds will continue to be held in transaction and current accounts on which banks pay negligible interest rates/fees on average. As a result of the above, it is evident that, in the current circumstances, banks believe that they can maintain a moderate, yet stable growth in deposits, which will be sufficient to finance credit demand, with a limited increase in interest rates on deposits.

The strong growth in lending to the private non-financial sector resulted in a reduction in the negative gap of the private sector credits to GDP, which indicates a gradual recovery of the financial cycle (Graph 5.6). The graph shows the assessment of the financial cycle for BH, based on two basic indicators[23]. The credit-to-GDP gap is a reference or *benchmark* indicator for assessing the credit cycle and is expressed in percentage points (right axis of the Graph). The composite indicator is created based on a larger number of individual financial and economic indicators that have been found to significantly reflect the financial cycle of BH, and is expressed in standard deviations (left axis of the Graph). The dynamics of both indicators are similar and show a very high positive gap in the initial period shown in the Graph, while in the more recent period it suggests that the negative gap is gradually closing.

Graph 5.6: Assessment of Financial Cycle for BH



Source: CBBH

The credit-to-GDP gap shows a positive cycle of as much as 20% during 2008, followed by a sharp slowdown in lending, and the credit cycle entered negative area in the first half of 2016. From then until the second quarter of 2021, the cycle moved around its long-term trend with minor positive and negative deviations. Since the third quarter of 2021, the financial cycle in BH has been in a downward phase and the negative gap has been continuously deepening until the end of the first quarter of 2023, when it even amounted to -13.9%, indicating extremely weak credit activity without tangible risks of overheating. Thanks to the strengthening of credit activity, since the second quarter of 2023, the negative gap has been slightly decreasing and at the end of the last quarter of 2024 it amounts to -5%. Although the indicator is still in negative territory, the financial cycle in the last six quarters has been marked by strong growth in lending to the private non-financial sector. The growth of lending is particularly pronounced in the household sector, especially in the segment of non-purpose loans, while the rate of growth of housing loans in the same period is significantly stronger, given the strong growth in real estate prices and high demand. At the same time, the growth of loans to non-financial companies accelerated strongly until the middle of 2024, only for the growth rate of these loans to slow down slightly in the last two quarters. In accordance with the results of the CBBH assessment, the financial cycle should reach its long-term trend by the end of 2025, after which, under unchanged circumstances, it would enter the expansion phase.

The composite indicator of the financial cycle has been positive since the third quarter of 2024, after twelve quarters of negative values, and in the last quarter of 2024 it is 0.36 standard deviations. The pre-crisis period also indicates significant overheating with a gap of over 3 standard deviations.

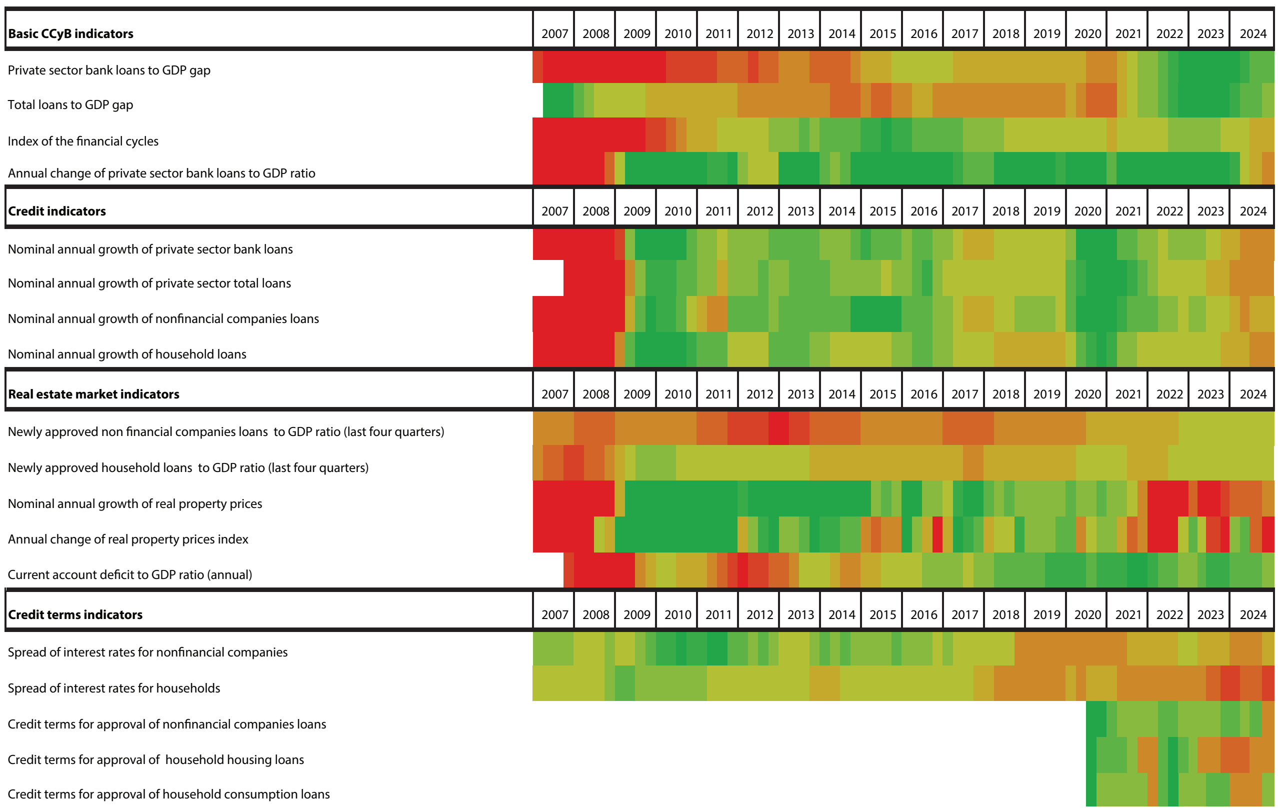
[23] *The Methodology for assessing the financial cycle for BH was developed in accordance with the recommendations of the Basel Committee on Banking Supervision (BCBS) and was partially adapted to the domestic economy and available data series. It is described in detail in the Financial Stability Report for 2021 (Text Box 4: Assessing the Financial Cycle for BH) at the following link: https://www.cbbh.ba/Content/Archive/575.*

However, the transition into negative territory occurs much earlier compared to the benchmark indicator - already at the end of 2011, which is a consequence of the faster reaction of non-credit indicators. The positive value of the composite indicator in the recent period is significantly contributed by the strong growth in real estate prices, as well as the growth of net interest income, the reduction of non-performing loans, indicators from the labour market, and foreign borrowing. On the other hand, as already mentioned in accordance with the results of the credit-to-GDP gap indicator, most of the included credit indicators, together with stock market index indicators, still contribute negatively to the composite indicator of the financial cycle.

The results of the analysis of the level of cyclical risks based on data for the fourth quarter of 2024 are presented in the Heat map. The average weighted rating of all indicators in the fourth quarter of 2024 is 6, and for the first time since the analytical framework was developed, it indicates increased systemic risks. Most of the indicators point that there has been a transition to the upward phase of the cycle. The positive value of the composite indicator of the financial cycle, together with other credit indicators (nominal annual growth of bank loans to the private sector, growth of total loans to the private sector, growth of household loans, as well as loans of non-financial companies) indicates the strengthening of cyclical risks. Credit condition indicators such as narrowing interest rate spreads, due to a narrowing difference between active and passive interest rates, and credit standards for approving loans to households in the housing category, as well as loans to non-financial corporations, also contribute positively to the overall score.

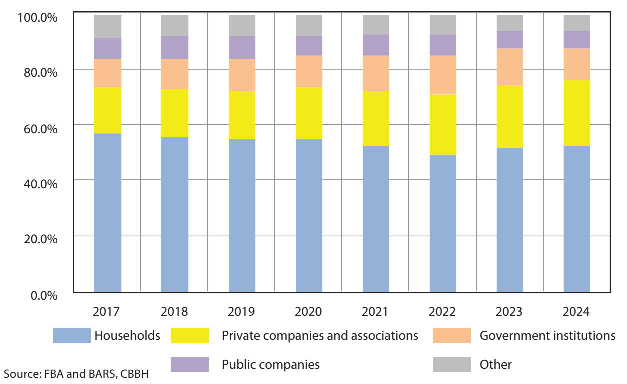
The dominant generator of growth in banking sector liabilities continues to be the growth of deposits of domestic sectors. Stronger growth compared to the previous year was achieved in conditions of weakening inflationary pressures, growth in real wages and increased remittances from abroad. Household deposits, especially sight deposits and deposits with a maturity of 1 to 3 years, recorded significant growth during 2024, which confirms citizens' confidence in the stability of the BH banking sector. Total resident deposits at the end of the year amounted to KM 33.76 billion and increased by 9% compared to the end of 2023. In 2024, the largest contribution to growth was made by deposits of private non-financial companies, which accounted for 23.6% of total deposits of domestic resident sectors, and household deposits, which accounted for 52.1% of total deposits (Graph 5.7). Deposits of private non-financial companies amounted to KM 7.98 billion at the end of 2024, recording an increase of 14.6%, while household deposits amounted to KM 17.8 billion and increased by 10.2% compared to the previous year. Also, deposits of other domestic sectors recorded an increase in 2024 of 11.5% compared to the previous year. On the other hand, deposits of government institutions and public companies recorded a slight decrease compared to the end of 2023.

Heat Map



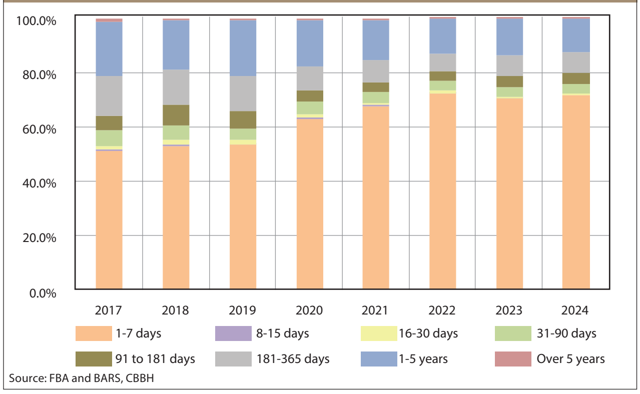
Source: CBBH

Graph 5.7: Sector Structure of Residents' Deposits



Source: FBA and BARS, CBBH

Graph 5.8: The Total Deposit Structure by the Remaining Maturity



Source: FBA and BARS, CBBH

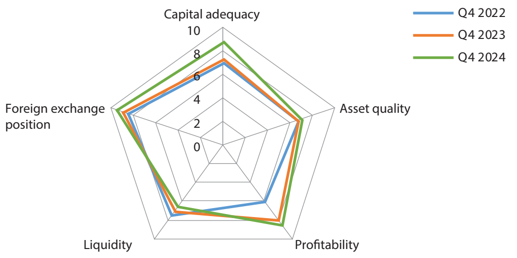
According to CBBH data, the most intense growth in 2024 was achieved by household deposits on transaction accounts (KM 1.26 billion or 17.35%) and long-term deposits (KM 678.4 million or 15.7%); short-term deposits grew by KM 12.6 million or 3.1%; the only decline was recorded in sight deposits by KM 357 million or 8.8%. At the end of 2024, a-vista deposits make up as much as 69.3% of total household deposits, with deposits on transaction accounts accounting for 48.2% and sight deposits with 21.1% of total household deposits. On an annual basis, the trend of decreasing the share of long-term time deposits was stopped in 2024. The share of long-term deposits in total household deposits increased by 1.4 percentage points compared to the previous year, and amounts to 28.3%. However, in the first quarter of 2025, certain oscillations were again noticeable and the share of long-term time deposits in the total household deposits decreased slightly. The dominant growth of deposits on transaction accounts, which continued in the first quarter of 2025, is contributed by the still low average passive interest rates on term deposits of households. The average weighted interest rate on term deposits of households in 2024 recorded an increase of 31 basis points compared to the previous year and amounts to 2.1%. The strengthening of inflationary pressures, along with still relatively low passive interest rates, does not contribute to the population's motivation regarding term deposits, especially in the long term.

The maturity structure of sources of funds did not change significantly in 2024. Domestic sectors' preferences for term deposits did not increase, despite a slight increase in interest rates on term deposits. Deposits with a maturity of 1 to 7 days grew by 10.6% in 2024, and their share in total deposits increased by 1 percentage point, to the level of 71.2%. The most significant increase of 23% was achieved by deposits with a maturity of 91 to 181 days and their participation increased to 4.2% in total deposits. Only deposits with a maturity of 1 to 5 years were slightly reduced in 2024 compared to the previous year by 2%, and they account for 12% of total deposits. The share of long-term deposits with a remaining maturity longer than 5 years is only 0.3% of total deposits (Graph 5.8).

5.1.2. Resilience of the banking sector to risks and stress tests

In 2024, the BH banking sector remained stable and resistant to risks in a somewhat more favourable macroeconomic environment compared to the previous year. The overall assessment of financial health indicators point that the resilience of the banking sector has increased compared to the previous year, since the values of the capitalisation indicator have recorded growth, the trend of gradual improvement in asset quality has been maintained, indicators in the profitability segments have improved, and high liquidity has been preserved (Graph 5.9). In the coming period, credit risk can be expected to strengthen, given the strong credit growth and increased risk perception in the macroeconomic environment, and a slowdown in the profitability growth trend under the influence of pressure on the growth of financing costs, weaker growth in interest income and growth in operating costs. Potential deterioration in asset quality associated with a weak recovery in economic activity and increased interest rate risk could also reduce the profitability of the banking sector. Increased risks coming from the international macroeconomic environment and spilling over into domestic macroeconomic developments and the expected strengthening of inflation in 2025 will continue to put pressure on the ability to properly service the obligations of the corporate sector, while credit risk in the household sector is significantly mitigated by the growth of real wages. Strong credit growth in the segment of general-purpose loans potentially contributes to the strengthening of credit risk in this sector. The growth of interest rate risk is associated with a potentially more significant pressure on the growth of the costs of financing sources, which, together with the strong growth of long-term lending at a fixed interest rate, increases pressures on the net interest margin.

Graph 5.9: Chart of the Banking Sector Financial Soundness Indicators



Note: Assessment of stability for each variable is based on simplified standardisation of several indicators representing the basis for quantification of synthetic assessment of degree of stability of various segments of banking sector operations. To make indicators comparable, they need to be transformed first, i.e. standardised, after that, depending on the obtained value of z-score, each indicator is assessed according to relative position in relation to its empiric distribution. Increase of distance from the centre of the chart for each variable, i.e. higher grade indicates the increase of stability in the system, while grades closer to the centre warn of the increase of risk or decrease of resilience of banking sector and accordingly, a higher threat to stability.

The BH banking sector is adequately capitalised at the end of 2024 and all banks in the system meet the prescribed regulatory requirements regarding capital adequacy measured by the capital adequacy ratio and the financial leverage ratio. The Tier 1 ratio at the end of 2024 stood at 18.71%, the Common Equity Tier 1 capital ratio at 18.69%, while the financial leverage ratio at the system level at 10.65% (the regulatory minimum is 6%). The Tier 1 and the Regulatory capital ratios remained at the same level as at the end of the previous year, while the financial leverage ratio improved by 54 bp, contributing to higher capital adequacy assessment. The biggest impact on the growth of the value of the Tier 1 capital and the Common Equity Tier 1 capital at the system level was the inclusion of realised profit in the Tier 1 capital.

The total risk exposure of all banks in the system at the end of 2024 reached KM 25.6 billion, which is an increase of KM 3.6 billion or 16.2%. At the system level, the structure of total risk exposure has not changed significantly compared to the end of the previous year, and banks are most exposed to credit risk (91.5%), while operational and market risk exposures make up 7.8% and 0.7% of total risk exposure.

The results of the solvency stress test show that the banking sector of BH, at the current level of capitalisation, is able to withstand the materialisation of risks under both hypothetical adverse scenarios. With the aim of assessing the resilience of the banking sector to various negative shocks, adverse scenarios were modelled for the first time in such a way that they differ not only in the intensity of the shock, but also in its nature - the first is based on a shock from the demand side, while the second assumes a shock coming from the supply side. This year's stress test includes the quantification of market risk, and the results show that banks are resistant to changes in the yield on securities held in fair value portfolios.

Stress testing in the period from 2025 to 2027 is conducted using three different scenarios, namely the baseline and two adverse scenarios. The quantification of the scenario includes projections of macroeconomic and financial variables - such as real GDP, inflation, credit growth, interest rates on loans to households and corporates, and real estate prices (Table 5.2).

Table 5.2: Main Assumptions in Baseline and Adverse Scenarios

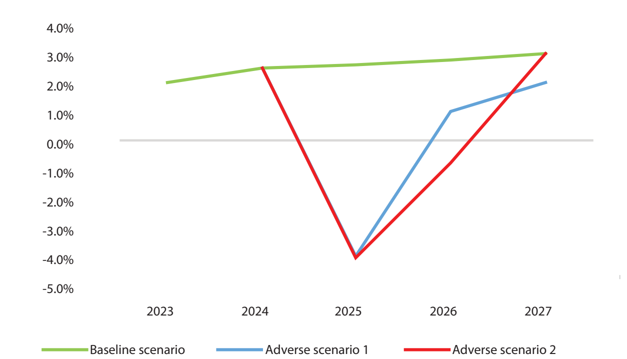
	2024	Baseline scenario			Adverse scenario 1			Adverse scenario 2		
		2025	2026	2027	2025	2026	2027	2025	2026	2027
Macroeconomic trends										
Real GDP	2.5	2.6	2.8	3.0	-4.0	1.0	2.0	-4.1	-0.8	3.0
Inflation (%)	1.7	1.9	2.0	2.0	1.4	1.6	2.0	3.0	5.0	2.5
Real property prices	11.6	2.9	1.1	4.0	0.2	-3.4	2.5	-2.0	-4.3	5.0
Conditions on the financial market										
Interest rates for households (%)	5.6	5.6	5.7	5.7	5.6	5.7	5.7	6.0	6.8	6.8
Interest rates for corporates (%)	4.4	4.7	4.9	5.0	5.0	5.3	5.3	5.2	6.3	6.3
Household credit growth	8.4	5.8	5.4	5.5	4.5	4.2	4.4	4.4	2.0	3.5
Corporates credit growth	8.2	5.1	4.7	5.0	-0.2	2.4	3.0	0.9	1.8	3.0

Source: CBBH

Note: Data for the macroeconomic trends and credit growth is the annual rate of the change presented in percentage.

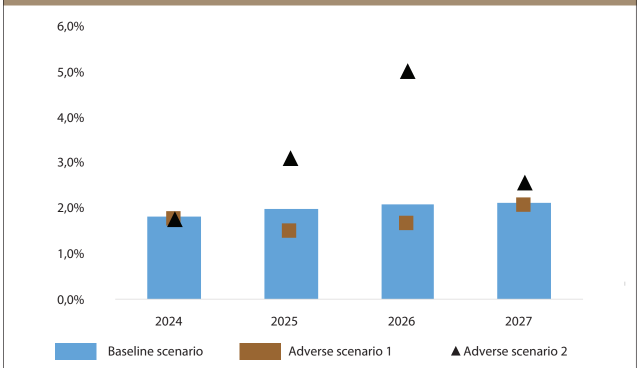
According to the official projections of the CBBH from November 2024, used as the **baseline scenario**, BH can expect a continuation of moderate-positive economic growth in the medium term, which will be accompanied by a stable and uniform inflation rate (Graphs 5.10a and 5.10b). Stronger household purchasing power will maintain the demand for residential real estate at a high level, which, along with limited supply, will result in continued growth in real estate prices, albeit at significantly lower rates compared to previous years. Regardless of the easing of monetary policy by the ECB, interest rates on the domestic market have slow response to these changes, and interest rates are expected to rise both in the corporate sector and in the household sector. Robust credit growth is expected in both credit categories throughout the entire stress testing horizon, but still at slightly lower rates compared to 2024. Loans to households will continue to be the key driving force behind overall credit growth, with stronger growth rates throughout the testing years.

Graph 5.10a: Real Growth of GDP



Source: CBBH

Graph 5.10b: Inflation Rate



Source: CBBH

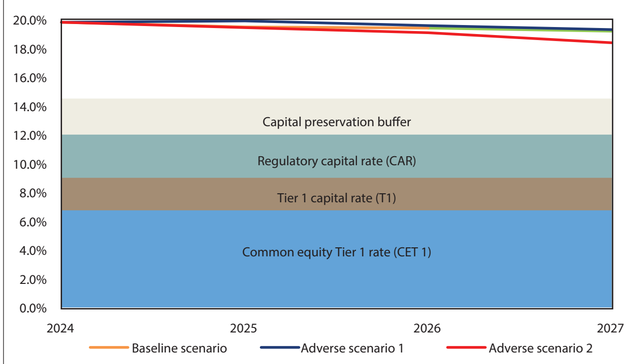
In addition to the intensity of the shock in this year's stress testing, the **adverse scenarios** also differ in the key drivers of recessionary movements. Adverse scenario 1 is based on a shock on the demand side, while adverse scenario 2 is based on a shock arising from the supply side. In the demand schock scenario, a global recession, a trade war and adverse economic conditions in the EU would also have a negative impact on the BH economy. Considering the connection of the BH economy with that EU market, there would be a drop in exports, a decrease in industrial activity and employment. Furthermore, global economic instability could lead to a decrease in remittances, fewer tourist arrivals and lower household consumption, which would slow overall economic growth. The second adverse scenario assumes a shock on the supply side as the key driver of the economic contraction in the tested period. Geopolitical tensions that disrupt the supply chain would lead to a sharp increase in food and energy prices and, together with the internal structural weaknesses of the state (risk of weather disasters), result in an interruption or reduced production, loss of market for BH companies, and consequently impaired labour market indicators and a decline in overall economic activity. A common feature of both scenarios that the intensity of materialisation of shocks is highest in the first year of testing when an almost equal drop in real GDP is expected in both scenarios. In the second year of testing, the demand scenario assumes a gradual recovery from recession, with modest GDP growth until the end of the time horizon, while the supply shock scenario assumes a two-year recession, and economic recovery can only be expected in the final year of testing. The two scenarios also assume different inflationary trends, so in the demand shock scenario, a significant slowdown in inflationary pressures is assumed during the first two years of testing, while on the other hand, the supply shock scenario assumes a sharp increase in inflation in the first two years, significantly above the baseline scenario, and a slowdown only in the last year to a moderate level. The movement of interest rates also differs between the two scenarios, given that the demand shock scenario assumes a continuation of the ECB's relaxing monetary policy, while the supply shock assumes a restrictive monetary policy by the ECB to suppress inflationary pressures. Interest rates on loans to households in the demand shock scenario recorded a slight decline compared to the baseline scenario, while in the supply shock scenario they would have recorded a significant increase in the first two years of testing. On the other hand, corporate loan interest rates are projected to rise under both scenarios, with a much sharper increase in the supply-side shock scenario. Credit activity of the household sector remains strong in both scenarios, due to the growing need to finance basic consumption during the recession. In contrast, corporate credit activity decreases in 2025, especially in the demand shock scenario, with a gradual recovery in the following years. As a result of negative economic conditions, both in the country and abroad, a significant effect of slowing down or decline in real estate prices is projected in both adverse scenarios.

The impact of stress tests on the capital adequacy ratio was quantified based on the initial balance as of 31 December 2024. At the end of 2024, the banking sector showed considerably greater resistance to assumed shocks compared to the previous year, due to favorable initial performance indicators, including the high capitalisation rate of all banks in the sector, improvement in asset quality, and the highest annual net profit recorded to date.

In the baseline scenario, the banking sector maintains a very high level of capitalisation of 19.2% until the end of the time horizon of the stress test. All banks in the system would be able to maintain the level of capital significantly above the regulatory minimum of 12%, as well as fulfil the additional capital requirements from Pillar 2 established within the framework of the Supervisory Review and Evaluation Process of individual banks (SREP). One bank would not be able to maintain an additional capital buffer, as well as a capital buffer for structural systemic risk of 1% until the end of the testing period.[24]

The results of the stress test under the two adverse scenarios show significant differences, indicating that the banking sector is generally more resilient to demand-side shocks, where inflation is expected to decline and domestic interest rates are projected to stagnate or fall. In the scenario of a shock on the demand side, the capital adequacy ratio would remain at a high 19.3% at the end of the test period, with all banks in the system meeting the minimum regulatory capital requirements, as well as the additional capital requirements from Pillar 2. Only one smaller bank in the system, as in the case of the baseline scenario, when absorbing the assumed shocks, depletes capital surpluss and encroaches into the capital buffer, and is unable to fulfil the obligation to maintain an additional capital buffer for the structural risk of 1%. In case of materialisation of shocks on the supply side, the banking sector also proved to be resilient, as indicated by the capital adequacy ratio, which would amount to 18.4% at the end of the test period. If we look at the results for individual banks, additional capital needs at the end of the three-year test period would be reported by a total of four banks in the system, whereby three banks would not meet the minimum regulatory capital requirements at the system level of 12%, while one bank would not meet the additional capital requirements established within the SREP. The total assets of the mentioned banks at the end of the fourth quarter of 2024 make up only 6.5% of the assets of the banking sector, which additionally indicates the stability of the system in case of the materialisation of strong shocks on the supply side. In addition to the aforementioned banks that expressed the need for recapitalisation, another bank would exhaust the accumulated surplus capital, that is, it would violate the capital buffer in the assumed scenario. In the observed three-year period, in the adverse scenario 2, recapitalisation needs would amount to KM 38 million, which represents 0.1% of the gross domestic product in 2024.

Graph 5.11: Capital Adequacy Ratio in Baseline and Two Adverse Scenarios and Minimum Regulatory Capital Requirements

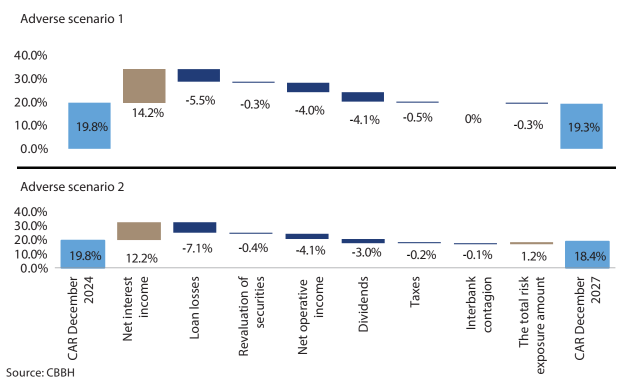


Source: CBBH

Graph 5.12 shows the contribution of individual balance sheet positions and income statement positions to the cumulative change in the capital adequacy ratio at the systemic level, in adverse scenarios, in the period from the end of 2025 to the end of 2027. The decline in the capitalisation of the banking sector in both stress scenarios is primarily the result of increased credit risk losses that arise primarily from the credit portfolio of the corporate and household sectors. Capitalisation is also influenced by the decrease in net operating income compared to the end of 2024. Net interest income, on the other hand, has a key positive contribution to maintaining capital adequacy, of 14.2% percentage points in the first and 12.2% percentage points in the second adverse scenario, despite projected decrease by the end of 2027. Also, capitalisation during stress is additionally influenced by the assumption of dividend payment in all three periods of stress testing as well as in all three scenarios. The impact of interbank contagion in the system on the capitalisation of banks is negligible for the time being.

[24] *From the end of the second quarter of 2024, new agency decisions related to the determination of additional capital requirements and measures to limit structural systemic risks will be applied, with the aim of preserving and strengthening the stability of the banking system. According to the aforementioned decisions of the banking agencies, each bank is obliged to maintain a capital buffer for structural systemic risk (Systemic risk buffer - SyRB) in the form of Common Equity Tier 1 capital, if it meets one or both of the following conditions: the share of non-performing loans in total loans is greater than 5% and/or the rate of expected credit losses for non-performing loans (ECL ratio for NPLs) is less than 65%. The specified SyRB rate can be 0%, 1% or 2% of the bank's total risk exposure.*

Graph 5.12: Impact of Individual Positions on CAR in Both Adverse Scenarios



Source: CBBH

The framework for stress testing was upgraded to include an assessment of market risk, and the results of the stress test show that the assumed market risk of changes in the yield on securities in the banks' portfolio has a slight negative impact on the capital adequacy ratio (see Text Box 4).

Text Box 4: Upgrading the stress testing framework – market risk

In addition to credit risk, which remains the dominant risk in the banking sector of BH, from the fourth quarter of 2024, market risk has been incorporated for the first time into the stress testing framework. Specifically, an assessment was conducted on the impact of changes in yields on the market value of debt instruments measured at fair value in banks' portfolios. The upgrade of the stress testing framework enables a more comprehensive insight into the vulnerability of the banking sector in conditions of market shocks. Taking into account the historical trends in crisis periods, when the growth of yields on securities caused significant losses in the capital markets, it was considered necessary to include market risk in assessments of the systemic resilience of banks. It is worth noting that market risk assessment did not include changes in the value of shares and other financial instruments whose share in the investment portfolio of banks is negligible.

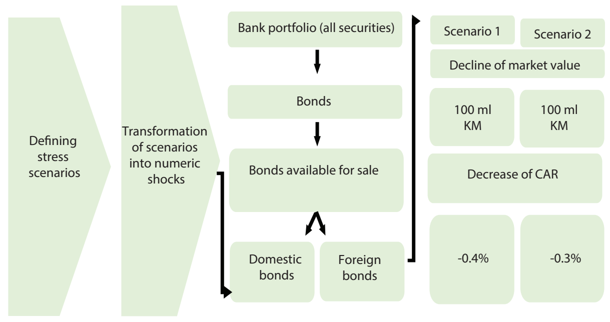
The banking agencies of the Federation of Bosnia and Herzegovina and Republika Srpska also recognised the need to take measures to mitigate the risks caused by the significant growth of reference interest rates, inflation and other disruptions in the financial markets, and in order to achieve this they adopted a set of temporary measures, including measures limiting the exposure of banks to foreign central governments and central banks. Thus, the sum of exposure towards all foreign central governments and central banks or exposure towards them as collateral issuers or providers of intangible credit protection, which are assigned with a risk weight of 0%, may not exceed 50% of the bank's recognised capital in RS, or 100% of the bank's recognised capital in the FBH.

Banks have the option of applying stricter internal restrictions, but they must not be less strict than the prescribed regulatory limits. As part of bottom-up stress tests carried out by banking agencies, banks are also required to assess the impact of changes in yields on the fair value of financial instruments in their portfolios, primarily those classified as instruments available for sale or those valued at fair value through the income statement.

The impact of market risk in the top-down stress test is assessed by parallel shifts in the yield curve for debt financial instruments, which implies a change in yield for all maturities for the same amount. This change can be applied separately for domestic securities and for foreign securities that are measured at fair value through profit or loss, or classified as available-for-sale. Yield shocks on debt securities are set in accordance with default narratives in stress scenarios, taking into account assumptions about inflation and interest rate growth, as well as historical data showing changes in yields on debt securities in periods of stress. It should be noted that yield shocks in stress scenarios are an expert assessment of the CBBH Financial Stability Department, and do not reflect forecasts of interest rate movements, but serve as a tool for assessing the exposure of bank portfolios to potential shocks and their impact on capital and profitability.

The movement in securities yields differs between the two stress scenarios. In the scenario of a shock on the supply side, in which a significant drop in economic activity is assumed, a pronounced strengthening of inflationary pressures, and consequently an increase in interest rates, stronger disturbances occur in the financial markets. Also, the slowdown of economic activity and the growth of inflationary pressures in the country would further weaken the fiscal position and raise doubts about the long-term sustainability of public finances, which would affect the growth of the premium on the risk of entity securities. Due to all of the foregoing, a significant shock in the growth of yields on both domestic and foreign securities was assumed in the amount of 300 basis points in the first period of stress testing. In the scenario of a shock on the demand side, a weakening of inflationary pressures and a decline in economic activity are assumed. In these circumstances, the capital market remains more stable, but still subject to moderate negative shifts in yields on debt financial instruments, which is why a slightly milder shock of yield changes was assumed in the second testing period of 200 basis points for domestic and foreign securities.

Chart TB 4.1: Including Market Risk in Stress Testing and its Effects on CAR



Source: CBBH

The results of the conducted stress testing indicate that the growth of interest rates would have a moderate impact on the market value of debt securities at the level of the BH banking sector. In the scenario of a shock on the supply side, the market value of these instruments would decrease by KM 100 million, i.e. by 5.3%, while in the scenario of a shock on the demand side, the decline in the value of these financial instruments would amount to KM 67 million, i.e. 3.5% of the total value of their portfolio.

Although the decline in the market value of debt instruments, caused by the increase in yields, negatively affects the capital of banks, wherein this effect is not significant considering that banks hold a large part of financial instruments "until maturity". Securities valued at fair value account for 4.5% of the sector's total assets, which indicates a low share of this type of instrument in banks' portfolios. For this reason, even the assumed yield growth shock would have a limited impact on the capital adequacy ratio and would amount to -0.4% in the supply shock scenario and -0.3% in the demand shock scenario. This approach, i.e. the dominant holding of securities until maturity, enables banks to reduce market risks associated with yield changes, maintain a conservative risk management model and reduce pressure on regulatory capital requirements. However, it is important to emphasise that such a model can hide unrealised losses that would materialise in the event of the need to prematurely sell instruments from the part of the portfolio that is held until maturity, which would open the need for reclassification and recognition of market losses.

In addition to the continuous decrease in the level of NPLs in the previous period, the results of stress tests show that the quality of the credit portfolio is very sensitive to changes in macroeconomic conditions, and already in the baseline scenario there is a slight deterioration in the quality of the credit portfolio in all three years of testing. In both adverse scenarios, a significant increase in non-performing loans is expected until the end of the time horizon of the stress test due to worsening conditions in the macroeconomic environment. Higher unemployment, as well as lower corporate profits reduce the ability to repay loans in both the household and corporate sectors, and lower real estate prices affect the value of residential and commercial property collateral in both scenarios. However, the assumed growth of inflation in the first two years of testing as well as the consequent increase in interest rates in the supply shock scenario affects the significant deterioration of the quality of the credit portfolio in this scenario. Thus, the total NPL ratio at the system level could rise to 5.5% at the end of 2027 in the scenario of a demand shock, or to 6.4% in the scenario of a supply shock, when all assumed shocks materialise. The growth of non-performing loans in both adverse scenarios would be much more pronounced in the corporate sector than in the household sector, which is the result of greater sensitivity of the corporate credit portfolio to a sharp decline in economic activity and rising interest rates.

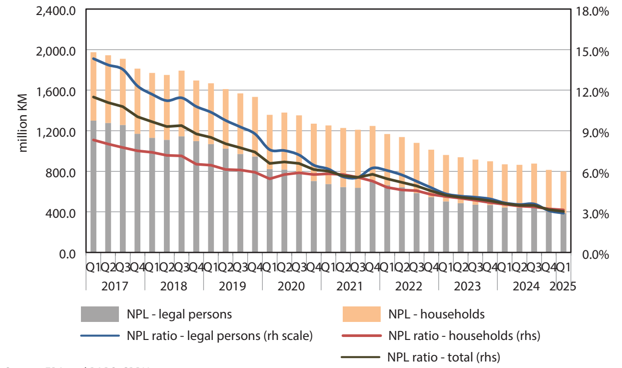
The network analysis of the spillover of systemic risks showed that the trend of multi-year reduction of interbank exposures, both in terms of the total amount and the number of interconnections between banks recorded at the end of 2024, has stopped. Although the data show a significantly higher amount of mutual exposure of domestic commercial banks compared to the same period of the previous year, the total value of interbank exposures at the end of 2024 is still modest and amounted to 2.5% of total regulatory capital and 0.3% of total assets of the banking sector. Considering the growth of interbank exposures, the risks of interbank contagion due to the spillover of systemic risks between banks are slightly elevated, which was confirmed by the network analysis of the spillover of systemic risks. The network analysis, which included the credit shock and financing shock, confirms the same or slightly higher values of the contagion index and the vulnerability index in most banks in the system compared to previous years. In the analysis, a reduction in the capital adequacy ratio below the regulatory prescribed capital level of 12%, increased by the additional capital requirement from Pillar 2 determined by the bank's Supervisory Review and Evaluation Process (SREP), was taken as the criterion according to which it is considered that there exists interbank contagion.

Analysis of cross-border connectivity according to data for the end of 2024 indicated that a greater risk of contagion arises from cross-border exposures than from exposures on the domestic interbank market. Given that the banking sector in Bosnia and Herzegovina is dominated by banks in majority foreign ownership, the findings of the analysis confirmed their significant cross-border exposure and dependence primarily on parent banking groups. Comparing the findings of the network analysis with those from the previous year, it is noticeable that the total exposure of the BH banking sector abroad is 20.6%, and the largest exposures of BH banks are to Austria, Germany and Italy. With regard to greater foreign exposures, the vulnerability index and contagion index are higher for most banks compared to the previous year. The level of risk of cross-border banking contagion estimated in the analysis depends on criteria chosen to define the existence of cross-border contagion. The stricter condition according to which banking contagion exists in the event of a drop in the bank's capital adequacy ratio below the regulatory prescribed level increased by additional capital requirements under the SREP and 50% withdrawal of funding by non-resident sectors, showed that some of the ten banks could face undercapitalisation in the event of major shocks in one of the five countries[25]. If, on the other hand, the condition for the existence of banking contagion is taken to be a milder criterion that interbank contagion exists when losses exceed the amount of the bank's entire Tier 1 capital, only one bank would have a loss that exceeds the amount of its capital stock in the event of major shocks in one country (Turkey). It is important to note that the indirect effects of contagion were not recorded in any case owing to the small interbank exposures and the good capitalisation of all commercial banks in BH.

In 2024, the trend of improving the asset quality indicator at the level of the banking system continued, which is reflected in the lowest value of non-performing loans compared to total loans after the outbreak of the financial crisis. Despite this, credit risk remains elevated due to expectations of strengthening inflationary pressures in the country, and weak growth in real economic activity, which may result in difficulties in repaying credit obligations of companies and natural persons. In addition, the stronger growth of credit activity in the last six quarters contributes to the accumulation of systemic risks, and in the coming period, oscillations in the values of key indicators of asset quality are more certain.

The share of non-performing assets in total assets at the end of 2024 is 1.8% and is 30 bp lower than at the end of the previous year. During the year, balance sheet and off-balance sheet exposures at credit risk level 3 recorded a decrease in the amount of KM 52.4 million (5.5%), while total financial assets were higher by KM 4.62 billion or 10.12%. The largest part of non-performing assets consists of non-performing loans, which at the end of 2024 amounted to KM 813 million and decreased by KM 85.2 million or 9.5% compared to the end of the previous year. The reduction of non-performing loans, along with a significant growth of total loans, resulted in a decrease in the share of non-performing loans in total loans, so that at the end of 2024 the NPL ratio was 3.15%, which is the lowest value recorded after the outbreak of the financial crisis in 2008. During 2024, the banks achieved a reduction in non-performing loans to the greatest extent based on the accounting and permanent write-off of assets assessed as a loss and implemented activities for the collection of non-performing receivables. According to data from the CRC, in 2024 a lower default rate was recorded in the household sector in terms of the value of credit lots that went from performing to non-performing claims (from the level of 1.19% in 2023 to the level of 1.05% in 2024). In the segment of legal entities, the default rate remained at almost the same level as in the previous year, and in 2024 it amounted to 0.91%. During 2024, non-performing loans in the corporate and household sectors continued their downward trend, so that at the end of 2024, the share of non-performing loans in total loans in the corporate sector amounted to 3.1%, while in the household sector this indicator amounted to 3.2% (Graph 5.13).

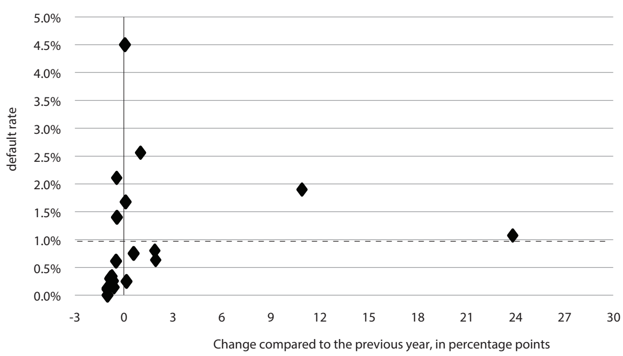
Graph 5.13: Credit Portfolio Quality



Source: FBA and BARS, CBBH

In the segment of legal entities, a decrease in non-performing receivables was recorded in almost all activities. Also, the retention of the default rate in the segment of legal entities at approximately the same level as the previous year indicates that there was no significant materialisation of credit risk in non-financial companies despite operating in the circumstances of an elevated level of risk in the macroeconomic environment. Analysing the default rate by banks, it can be concluded that in more than half of the banks in the system, the credit risk decreased or the credit risk remained at approximately the same level as in the previous year (Graph 5.14).

Graph 5.14: Default Rate in Corporate Sector, by Banks in 2024

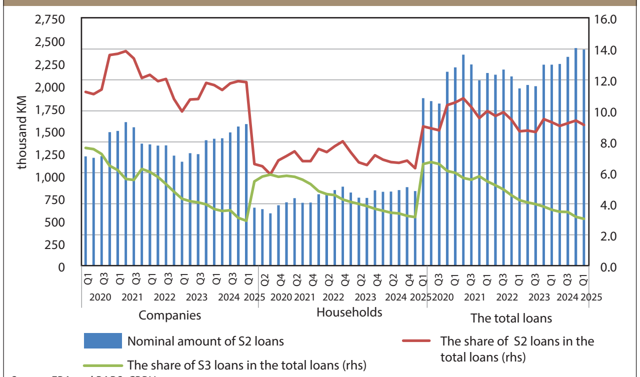


Source:CRC, CBBH calculation

25 *Austria, Germany, Italy, Turkey and Luxembourg.*

The share of loans with increased credit risk (loans in credit risk level 2) in total loans to legal entities was also kept at approximately the same level as at the end of the previous year and amounts to 11.9% (Graph 5.15). At the same time, the trend of deepening the gap between the rate of loans with increased credit risk (S2) and the rate of non-performing loans (S3) is significantly more pronounced for legal entities compared to the household sector, which indicates a strengthening of credit risk and a more certain growth of non-performing loans in this segment in the coming period. The increased level of risk in the macroeconomic environment was to the greatest extent reflected in the operations of companies in the manufacturing industry and construction activities, in which the largest growth of loans at credit risk level 2 was recorded. Thus, the share of loans at credit risk level 2 in total loans placed to companies from the manufacturing industry increased from the level of 12.4% at the end of 2023 to the level of 13.7% at the end of 2024, while the share of loans at credit risk level 2 that were placed with companies engaged in construction activity increased from 17.8% to 19.2%.

Graph 5.15: The Loans at the Credit Risk Level 2 and the Shares of S2 and S3 in the Total Loans

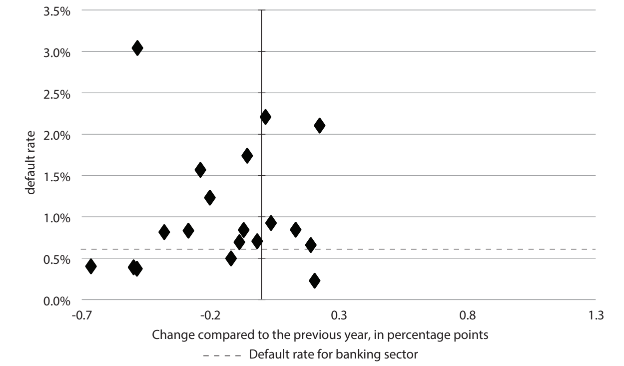


Source: FBA and BARS, CBBH

The negative economic consequences of the floods from October 2024 will also have an impact on the banking system, although there is still no data available on the number of clients or the total credit portfolio, where the sources of income for repayment have been significantly reduced as a result of heavy rainfall. With the timely temporary measures of the regulator, the negative consequences caused by the floods are mitigated, but the direct and indirect effects of the floods may have an additional impact on the increase in non-performing receivables in the coming period. Due to the continued weakening of macroeconomic conditions and the re-intensification of inflationary pressures, the credit risk in the sector of non-financial companies can be assessed as increased, and the multi-year trend of continuous reduction of bad receivables in the corporate segment, as well as certain oscillations in the values of asset quality indicators, is certain to stop in the coming period.

The average default rate in the household sector at the end of 2024 is 1.05% and has slightly decreased compared to the previous year. Changes at the system level were not significant and most banks in the system experienced a reduction in credit risk. Only one smaller bank stands out with a relatively high share of non-performing loans in total loans, which recorded a higher intensity of reclassification into non-performing loans in 2024 compared to other banks in the system, but nevertheless the default rate improved compared to the previous year 2023 (Graph 5.16).

Graph 5.16: Default Rate in the Household Sector, by Banks in 2024

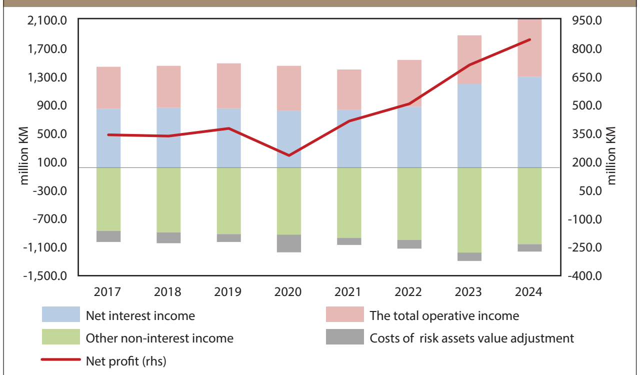


Source: CRC, CBBH

Due to the retention of stricter credit standards and policies, which imply financing of extremely solvent and creditworthy clients, on the one hand, and source structure, on the other hand, banks have so far been less inclined to change interest rates on existing loans with a variable interest rate. In the coming period, no significant changes in interest rates on the domestic market are expected, bearing in mind the weak mechanism of transfer of conditions from the euro area financial markets to the BH banking system, and the extension of the regulator's decisions on temporary measures to mitigate the risk of interest rate growth. At the same time, the trend of lending with a fixed interest rate was maintained in the structure of newly approved loans. Of the total newly approved loans in 2024, 78.2% were approved with a fixed interest rate, whereby 90.1% of newly approved loans to households and 64.4% of newly approved loans to private non-financial companies were contracted with a fixed interest rate. However, although the increase in the share of loans with a fixed interest rate makes a positive contribution to the reduction of interest-induced credit risk, a strong increase in the share of loans with a fixed interest rate could have a negative impact on profitability, since it is expected that the increase in bank financing costs will continue in the coming period, which will put pressure on the sustainability of net interest margins. Nevertheless, taking into account the data of banking agencies on effective interest rates, which are noticeably higher than nominal interest rates, especially in the household sector, it can be concluded that banks have already incorporated to a significant extent estimates of the growth of financing costs into the effective interest rate on loans with a fixed interest rate.

In 2024, the banking sector of BH reported a record net profit and achieved higher rates of return on average assets and average capital compared to the previous year. Assuming continued growth in credit activity and a slight increase in active interest rates, the profitability of the banking sector will remain high, but the growth trend could slow down significantly due to the potential increase in financing costs, provisions for expected credit losses and operating costs. The BH banking sector reported a record net profit of KM 840 million in 2024, 19% higher than the previous year. The growth in net interest income was achieved under the influence of strengthening credit activity and a slight increase in interest rates, while interest expenses also achieved a significant increase, which slowed down the growth dynamics of net interest income compared to the previous year. Also, a strong growth in operating income was recorded. On the expense side, a slight decrease in the cost of adjusting the value of risky assets was recorded, while other operating and direct expenses and total operating expenses recorded an increase, which led to an increase in total non-interest expenses (Graph 5.17).

Graph 5.17: Banking Sector Profit



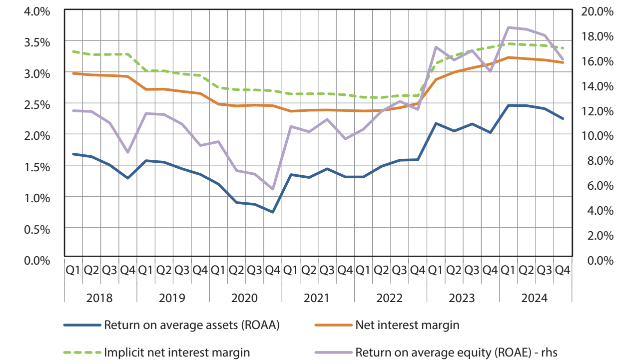
Source: FBA and BARS, CBBH

All banks in the system reported positive financial results, with the largest portion of banking sector profits still concentrated in a few large banks. The four most profitable banks generated 56.1% of the total net profit of the banking sector.

Total net interest income in 2024 amounted to KM 1.3 billion and is KM 103.3 million or 8.8% higher than last year. Continued growth in active interest rates can be expected in the coming quarters, which will continue to have a positive impact on the profitability of the banking sector, especially if this growth is not accompanied by a proportional growth in passive interest rates. At the same time, banks will face increasing operating costs, primarily due to pressure to increase salaries, but also to continued investments in the digitalisation of operations, which should lead to increased efficiency in the medium term.

Profitability indicators ROAA and ROAE recorded record levels in the first two quarters of 2024, but in the third quarter of 2024, a gradual decrease in bank profitability began, and at the end of the fourth quarter of 2024, ROAA and ROAE are 2.25% and 16%, respectively. Compared to the same period of the previous year, they recorded an increase in value of 0.23 and 0.97 percentage points, respectively. The significant growth of the profitability indicator is the result of higher realised profits in 2024 compared to the previous year, at the same time with a significantly lower percentage growth of average assets and average capital (Graph 5.18)[26].

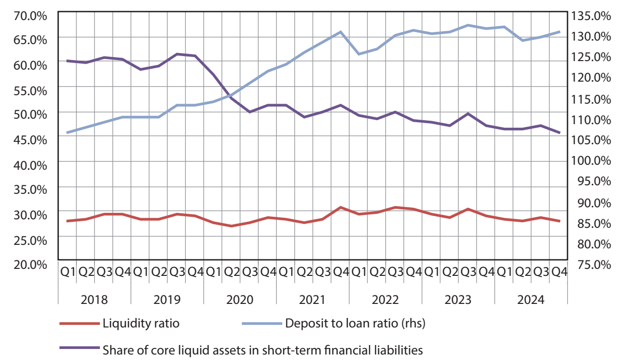
Graph 5.18: Profitability Indicators



Source: FBA and BARS, CBBH

In 2024, liquidity indicators decreased slightly compared to the previous year, and continue to reflect the high liquidity of the banking sector, as shown by the results of liquidity stress tests. At the end of 2024, liquid assets accounted for 28.2% of banking sector assets, while 45.8% of short-term liabilities were covered by liquid assets (Graph 5.19). The indicator of deposits to loans at the end of 2024 is 130.1%, and indicates that credit activity on the domestic market is fully financed by deposits of non-financial sectors. The liquidity coverage ratio (LCR) at the level of the banking sector at the end of 2024 was 231.9%, while the net stable funding ration (NSFR) was 159.7% at the end of 2024.

Graph 5.19: Liquidity Indicators



Source: FBA and BARS, CBBH

[26] *The implied net interest margin is the ratio of net interest income to average interest-bearing assets. The average interest-bearing assets at the end of the fourth quarter are calculated as the average of the balance of interest-bearing assets at the end of the fourth quarter of the previous year and the fourth quarter of the current year.*

The results of the top-down liquidity stress test conducted on the data from the end of 2024 confirm the high level of resilience of the banking system in BH to potential liquidity and funding shocks projected in alternative scenarios. This outcome is primarily the result of the strong initial liquidity position of all banks in the sector. All banks met the requirements in terms of LCR, and most were significantly above the prescribed regulatory minimum, ranging from 117% to 729%.

CBBH's liquidity stress tests are conceptually based on data on cash flows of all commercial banks in the system. The calculation of the liquidity position under assumed conditions of significant stress in a 30-day time period is based on the approach of the standardised measure of the LCR liquidity coverage ratio, which is an integral part of the new regulatory regulations for liquidity risk management and for which it is prescribed that banks must maintain ratios of at least 100%. Shocks in the liquidity stress test were calibrated using expert assessments in the CBBH in the form of three alternative adverse scenarios. The first stress scenario assumes a shock on the part of the household sector and is based on a historical event, i.e. the global financial crisis in the period 2008-2009, which resulted in a short-term loss of confidence in the BH banking sector and, consequently, the withdrawal of a significant part of household deposits. The second stress scenario represents a hypothetical systemic liquidity crisis in the country, in which the greater intensity of the stress on the sources of financing for banks would come from the corporate sector. The third, combined stress scenario is an adverse scenario that assumes a combination of shocks from the previous two scenarios, with elements of idiosyncratic shocks, such as large withdrawals of deposits, larger than expected withdrawals of approved credit lines, and stress on the financial market, which is reflected in a large drop in the value of all securities held as liquid assets. The assumed shocks in this scenario are about two to three times more severe than the requirements according to the LCR regulation, and the goal of this scenario is to identify even the smallest weaknesses in banks' liquidity positions (Table 5.3).

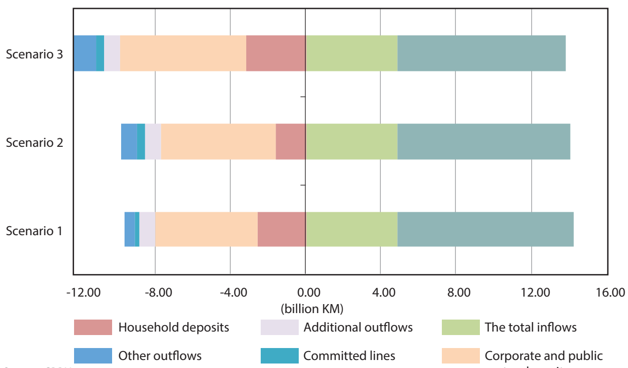
Table 5.3: Calibration of the Scenario in Liquidity Stress Test

		LCR parameter	Assumptions for scenario 1	Assumptions for scenario 2	Assumptions for scenario 3
Outflows	**Household deposits**				
	Deposits with higher outflow rates				
	Category 1	15%	20%	15%	30%
	Category 2	20%	30%	20%	40%
	Stable deposits	5%	10%	5%	10%
	Other household deposits	10%	15%	10%	20%
	Operational deposits				
	Covered by insurance system	5%	5%	10%	10%
	Not covered by insurance system	25%	25%	30%	35%
	Non-operational deposits				
	Covered by insurance system	20%	20%	25%	30%
	Not covered by insurance system	40%	40%	45%	50%
	Committed lines				
	towards natural persons	5%	5%	10%	10%
	towards legal entities	10%	10%	20%	20%
	towards financial clients	40%	40%	50%	60%
	Other products and services				
	Off balance liabilities	5%	5%	10%	15%
	Unused loans and advance payments to big clients	10%	10%	20%	30%
	Credit cards	5%	10%	5%	15%
	Account overdrafts	5%	10%	5%	15%
	Off balance products from trade financing	5%	5%	10%	15%
Liquid assets	**Liquid assets of level 1**				
	Assets of central government	100%	100%	95%	90%
	Assets of regional and local communities	100%	90%	85%	80%
	Liquid assets of level 2				
	debt securities of companies	50%	50%	30%	25%

Note: We selected the positions with the stress parameters different than LCR parameters.

The change in net liquidity outflows across the three assumed scenarios is the result of larger liquidity outflows, while total inflows were kept at the same level in all three scenarios. The total value of the outflow of liquid funds in different scenarios, as well as the change in the structure in terms of the contribution of different categories of outflows to their total value, differs by scenario, and the largest increase in liquidity outflows is assumed in Scenario 3, which significantly affects the LCR after stress in this scenario. Also, as a result of the projected shocks in all three scenarios, changes in the value of liquid assets are expected, but of a lower intensity compared to the dynamics of liquidity outflows (Graph 5.20).

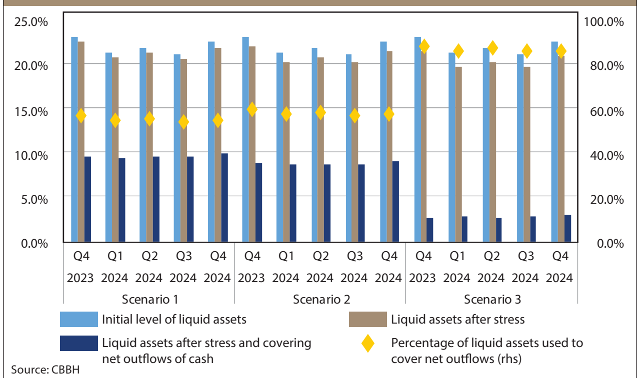
Graph 5.20: Basic LCR Components, Q4 2024



Source: CBBH

Graph 5.21 shows the average initial level of liquid assets with which banks enter the stress test, which at the end of 2024 amounts to 22.5% of the total assets of the BH banking sector. Liquid assets after stress over time in all three described scenarios clearly show that the values maintain a slightly lower level compared to the initial level of liquid assets, which is in line with the assumed intensity of the shock being primarily reflected in the positions of liquid assets of level 1, which is the most represented among all banks in the sector. On the other hand, the level of liquid assets after stress and covering the net outflow of cash according to the total assets of the banking system in BH decreases significantly in all three assumed scenarios (S1 9.95%, S2 9.10%, S3 3.00%), which indicates the importance of a protective layer of liquidity in stressful conditions. Furthermore, the percentage of used liquid assets to cover net outflows at the level of the banking sector is approximately the same in the first two stress test scenarios and amounts to 54.55% and 57.46%, respectively. In the third combined scenario, the average percentage of used liquid assets at the sector level was 85.64%, which is expected given the intensity of the assumed shocks in this scenario.

Graph 5.21: Liquid Assets for Banking Sector

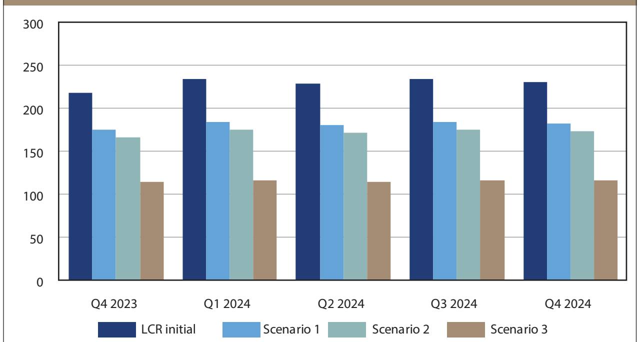


Source: CBBH
Note: Liquid assets are presented as a percentage of the initial value of the total assets.

Analysing the results of the liquidity stress test for individual banks, in the first assumed scenario, all banks would be able to absorb the liquidity and financing stress in a period of 30 days, while in the alternative Scenario 2, only one smaller bank in the sector would express the need for additional liquid funds in the amount of KM 1.9 million. It should also be noted that three banks in the first scenario and five banks in the second scenario would use the largest part of liquid assets, more than 70%, to cover the assumption of net outflows after the projected shocks. According to the assumptions from Scenario 3, five banks would not successfully absorb the liquidity and financing stress in a period of 30 days without additional liquid assets, while another four banks would exhaust over 90% of liquid assets to cover the net outflow. The assets of the five banks with lacking sufficient liquidity make up 20.6% of the total assets of the BH banking sector, and two of the five mentioned banks are among the largest banks concerning market share in terms of total assets. Considering that this is a very strong adverse scenario in which shocks from the household sector and the corporate sector are combined, which, in addition, are of stronger intensity than they were individually in the other two scenarios, it can be considered that the banks absorbed the assumed shocks well to the greatest extent.

The aggregated results of the stress tests over the periods show that the LCR for the banking sector remained above the regulatory minimum in all three scenarios and in each of the observed quarterly stress tests, and this coefficient would amount to 117% after the assumed shocks in Scenario 3 (Graph 5.22).

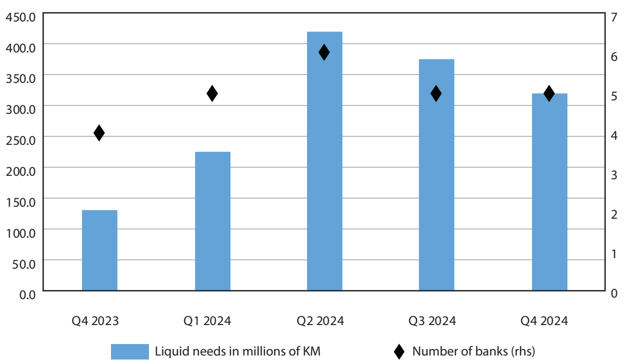
Graph 5.22: Liquidity Coverage Ratio (LCR) for Banking Sector



Source: CBBH
Note: Unlike LCR in alternative scenarios of liquidity stress test, the amount of expected inflows which can compensate the expected outflows is not limited to 75% of outflow.

If we look at the total needs of the banks for additional liquid funds, which the banks reported only in Scenario 3, they are significantly higher compared to the last quarter of 2023, and the number of banks reporting the need for liquid funds is higher by one bank (Graph 5.23). Compared to the previous quarter, the number of banks with missing liquid funds in Scenario 3 did not change, while the absolute amount of the need for additional liquid funds is 15% lower compared to the previous quarter.

Graph 5.23: The Total Banks' Needs for Additional Liquid Assets in Scenario 3



Source: CBBH

5.2. Non-banking financial sector

Despite the significant increase in the assets of the non-banking financial institutions sector, their share, role and importance have not changed, and they remain a poorly developed and less important segment of the financial market. A slight increase in individual participation in the total assets of financial intermediaries was recorded only by the microcredit sector, due to a significant increase in their balance sheet total; the participation of the leasing sector and investment funds remained at last year's level, while the share of insurance and reinsurance companies in total assets recorded a slight decrease. At the end of 2024, the overall participation of non-banking institutions in the assets of financial intermediaries remained at approximately the same level as the previous year. No shift from pronounced bank-centricity has been made in the last three years, and no more intensive development of non-banking intermediaries and the capital market has been recorded (Table 5.1). Although the microcredit sector saw a more pronounced growth in the balance sheet for the second year in a row, a modest increase in profitability indicators was recorded. The leasing sector moderately increased the balance sheet amount and business volume in 2024, with a significant increase in profit compared to the previous year. Insurance and reinsurance companies, which record moderate business growth measured by the increase in calculated premiums in both categories of insurance, life and non-life, remain the largest and most significant segment of the non-banking financial sector. In 2024, the total turnover on the BH stock exchanges increased slightly, and this year was dominated by issues of FBH debt securities.

The operation of the microcredit sector in 2024 is characterised by: significant growth in assets and growth in gross credit investments, without significant changes in the level of the risk portfolio, insignificant growth in capital, and a slight increase in profitability. At the end of 2024, 29 microcredit organisations (MCO) were operating in BH, of which 18 were microcredit companies (MCC) and 11 were microcredit foundations (MCF).

The total assets of the microcredit sector at the end of 2024 increased by 14.3% compared to 2023, while loans recorded a growth of 15.9%; an identical loan growth rate was achieved in the previous year (Table 5.4). Of the total amount of microcredits, 97% was granted to natural persons, with the primary financing of the agriculture sector (24.5%), followed by housing needs (21.7%), and the service sector (8.9%). Loans granted to all other sectors account for 44.9% of total loans to natural persons.

Table 5.4: Simplified Balance Sheet of Microcredit Organisations (million KM)

Assets	2023	2024	Liabilities	2023	2024
Monetary funds and placements to other banks	88.5	94.8			
Loans	1,223.6	1,418.5	Liabilities based on loans	771.7	929.5
Loan loss provisions	-12.5	-13.6	Other liabilities	83.6	111.0
Other assets	145.6	151.8	Capital	589.9	610.8
TOTAL	1,445.2	1,651.4	TOTAL	1,445.2	1,651.4

Source: FBA and BARS, CBBH

At the end of 2024, loans that are overdue for more than one day have a share of 0.8% in total loans, and their share is kept at approximately the same level as in the previous year. Reserves for covering credit losses at the sector level amounted to KM 13.6 million. Looking at the structure of liabilities, liabilities for taken loans are the main source of MCO funds and recorded a growth of 20.4% compared to the previous year. In the term structure of the microcredit portfolio, long-term microcredits have the largest share with 94.4%. After the term structure of sources of funds was considerably improved in 2020, when the majority of short-term obligations for loans taken by microcredit organisations from FBH were replaced with long-term loans, the same trend continued in the following years. The total capital of the sector at the end of 2024 amounts to KM 611 million and records an increase of 3.7% compared to the previous year. In the capital structure of the MCO sector, the capital of microcredit foundations accounts for 55.4%, while the capital of microcredit companies accounts for 44.6% of the total capital of the sector. In 2024, the capital of microcredit foundations and companies grew by 5.1% and 1.9%, respectively. The main source of capital of the MCF is the surplus of income over expenses, which at the end of the year amounted to KM 283.3 million, or 83.6% of the total capital of foundations. Similarly, as in the case of MCC, the dominant influence on the capital growth of microcredit companies was the growth of realised profit during the year, so that at the end of 2024, retained earnings make up 45.7% of the total capital of MCC, while the capital stock participates with 49.7% in the capital structure of microcredit companies.

In 2024, the microcredit sector achieved a positive financial result in the amount of KM 74.5 million, which is an increase of 5.2% compared to the previous year. Total revenues amounted to KM 304.8 million, which is by 15.1% higher than in the previous year. Looking at the income structure of MCO, interest income is still the dominant source of the sector's income, and owing to the growth of credit activity, an increase in income based on interest and fees was achieved by 21.5% in 2024. The average weighted effective interest rate on total microloans in the FBH in 2024 was 23.06%, and in RS it was 33.93%. Interest rates in the microcredit sector of both entities were at approximately the same levels until the end of 2020. However, since the first quarter of 2021, a significant increase in average interest rates has been recorded in Republika Srpska (RS), due to a continuous increase in average rates on short-term loans of very small amounts (up to KM 400), and interest rates have been kept at a relatively higher level during 2022. Total expenses of the microcredit sector amounted to KM 224 million and recorded an increase of 18.5% compared to the previous year. The growth of total expenses was influenced by the increase in interest expenses, which recorded an increase of 42.9%, as well as the growth of operating expenses, which were higher by 14.2% compared to the previous year.

In 2024, the volume of business in the leasing sector remained very modest, and despite the achieved growth in the balance sheet, the share of this sector in the assets of financial intermediaries remains unchanged and extremely low. At the end of 2024, four leasing companies had a license to operate, so compared to the end of the previous year, the number of leasing companies remains the same. The total assets of the leasing sector amounted to KM 568.5 million and recorded a growth of 8.2% compared to the previous year. Two leasing companies, in terms of asset size, account for 68.1% of the total assets of the leasing sector in BH. Financial leasing accounts for 78.5% of the value of the leasing contract, and operational leasing accounts for the remaining 21.5%. The value of newly concluded financial and operational leasing contracts in 2024 amounted to KM 314.7 million, which is by 7.4% less compared to the previous year. In the structure of receivables based on financial leasing at the level of the leasing sector, viewed according to the subject of leasing, contracts approved based on the financing of passenger vehicles and vehicles for the performance of activities account for 89.2%, while contracts based on the financing of machinery and equipment account for 10.8%. According to the leasing user, the largest part refers to contracts approved by legal entities (91%), and to contracts approved by natural persons (5.1%). In 2024, the leasing sector achieved a positive financial result in the amount of KM 8.8 million, which is an increase of KM 2.3 million or 34.5% compared to the previous year. In total, the revenues of leasing companies increased by KM 8.3 million, which is an increase of 13.3% compared to the previous year. Income from interest amounts to KM 32.9 million and it makes up 46.8% of the total income of the leasing sector and is higher by KM 4.5 million compared to the previous year. Operating revenues amount to KM 37.2 million with a share of 53% in the total revenues of the leasing sector, and compared to the previous year they increased by the amount of KM 3.6 million or 10.8%. The leasing sector in Bosnia and Herzegovina is very poorly developed and underutilised, and the basic activities of this sector continue to represent a certain type of replacement of classic bank loans, mostly to legal entities, bearing in mind that leasing financing for households is less favourable compared to bank credit investments due to the obligation to pay VAT on interest.

There was an increase in activity on the insurance market compared to the previous year. In 2024, 24 insurance companies and one reinsurance company operated in BH. The trend of insurance premium growth from previous years (with the exception of 2020) continued, and the total calculated premium amounted to KM 1.08 billion, and compared to the previous year, it recorded an increase of 10.3%, while the share of the premium in the total GDP is 2.1%. Of the total calculated premium, 80.86% concerns non-life insurance.

Weak representation of voluntary types of insurance continues to be a key weakness and a limiting factor in the development of the insurance market in Bosnia and Herzegovina. The most significant share in the total insurance premium is still held by automobile liability insurance (49.4%). The calculated premium on life insurance amounted to KM 207.8 million and recorded an increase of 4.2% compared to the previous year. The total gross paid claims amount to KM 469.7 million and make up 43.3% of the total calculated premium.

In 2024, 37 investment funds had a license to operate, of which 21 in the FBH and 16 in RS. Out of a total of 37 investment funds, 27 are open investment funds, while 10 funds are closed investment funds. The total value of net assets of investment funds at the end of 2024 amounted to KM 1.1 billion and is higher by KM 89.4 million or 8.6% compared to the end of the previous year.

Total turnover on BH stock exchanges increased slightly in 2024 and amounted to KM 1.52 billion, recording an increase of 3.1% compared to the previous year. The total turnover on the stock exchanges is, as in previous years, under the dominant influence of the entity's primary debt securities market, and unlike in 2023, FBH issues dominated this year. Thus, a significant increase in turnover of 86.2% was recorded on the Sarajevo Stock Exchange (SASE), while turnover on the Banja Luka Stock Exchange (BLSE) this year is by 30.2% lower than in the previous year. Of the total turnover on the Sarajevo Stock Exchange (SASE), KM 785.7 million or 51.6% was realised, while the turnover on the Banja Luka Stock Exchange (BLSE) amounted to KM 736.1 million or 48.4%. Of the total turnover on the SASE, 93.7% refers to public offers, which is mainly due to the issue of bonds and treasury bills of the FBH.

The total market capitalisation in Bosnia and Herzegovina at the end of 2024 is KM 12.74 billion and compared to the previous year it is higher by 9.3%. The increase in market capitalisation on the SASE amounted to KM 1.1 billion (17.5%), while the market capitalisation on the BLSE decreased by KM 53.2 million (-1%) compared to the end of 2023. In other segments of the capital market on both stock exchanges, there was no significant impact on the growth of turnover compared to the previous year.

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6. FINANCIAL INFRASTRUCTURE

6.1. Payment systems

In accordance with its legal obligation, in 2024 the CBBH continued to successfully support and improve the functions of payment transactions through modern accounting and payment systems for executing interbank transactions. Payment transactions were made smoothly through gyro-clearing and real-time gross settlement (RTGS) systems. The Central Register of Credits (CRC) and the Single Registry of Business Entities' Accounts (SRBEA) were maintained, and the execution of transactions through the international clearing of payments with foreign countries proceeded smoothly. Since 2019, the giro clearing system has been harmonised with the method of working in the European Union (EU), which has fulfilled one of the prerequisites for the integration of the payment systems of the CBBH into the payment systems in the EU.

In the course of 2024, an increase in the number of transactions and the total value of all transactions through giro clearing and RTGS payment systems was recorded. In 2024, the total value of interbank transactions in payment transactions is by 12.2% higher. The total number of transactions is by 6.2% higher than in the previous year. In 2024, the first ten banks in BH in terms of volume of transactions participated in the total number of RTGS and giro clearing interbank transactions with 78.02%, which is a decrease of 47 basis points compared to the previous year. However, the participation of the first ten banks in the total value of transactions increased from 76.27% in 2023 to 76.79% in 2024. The increase in the value of total transactions in payment transactions in 2024 and the faster circulation of money led to a decrease in the number of days needed to make transactions worth the annual nominal GDP (Table 6.1). The number of intrabank transactions increased by 7.1%, and interbank transactions by 5.1% compared to the same period last year, and intrabank transactions are still dominant in the total number of transactions (67.1 million transactions). The value of intrabank transactions in 2024 amounted to KM 150.16 billion, while the value of interbank transactions amounted to KM 183.04 billion.

Table 6.1: Interbank Payment Transactions

Year	The total number of transactions, in million	"The total turnover, million KM"	"Average daily turnover, million KM"	GDP/ average daily turnover
2009	29.0	64,458	251.8	95
2010	31.8	67,779	263.7	94
2011	32.5	76,653	298.3	87
2012	33.8	81,533	318.5	81
2013	35.8	76,605	298.1	88
2014	37.9	87,859	341.9	79
2015	39.1	85,106	326.1	87
2016	40.0	88,380	338.6	86
2017	41.1	96,243	370.2	85
2018	42.3	102,670	393.4	83
2019	43.6	123,046	471.4	74
2020	43.8	105,132	398.2	85
2021	48.0	122,403	470.8	79
2022	49.7	145,825	583.3	78
2023	50.8	163,096	627.3	80
2024	53.3	183,042	709.4	72

Source: CBBH

In Table 6.2. the values of the Herfindahl-Hirschman index (HHI)[27] are shown, which illustrates the concentration of the total number and value of interbank transactions in payment transactions for the 10 banks with the largest participation in both payment systems (gyro clearing and RTGS). Although the majority of interbank payment transactions take place between a smaller number of large banks, the values of the HHI index indicate a moderate concentration of interbank payment transactions and the absence of systemic risks in payment systems. Analysing the concentration of interbank payment transactions in the 10 largest banks, whereby banks from the same grouping are viewed as one bank, the concentration index only slightly increases, but still indicates a moderate concentration.

[27] *HHI is a measure of concentration and is calculated as the sum of the squares of individual shares in the observed segment. An index below 1,000 points indicates non-concentration, from 1,000 to 1,800 points moderate, from 1,800 to 2,600 points high concentration, over 2,600 is considered very high concentration up to a maximum of 10,000 when the concentration is monopolistic.*

Table 6.2: Concentration of the Transactions in Interbank Payment System (HHI)

Period	10 banks with the largest shares	
	Number of transactions	Value of transactions
December 2009	1,233	1,413
December 2010	1,256	1,346
December 2011	1,230	1,287
December 2012	1,278	1,295
December 2013	1,337	1,378
December 2014	1,350	1,310
December 2015	1,314	1,305
December 2016	1,307	1,322
December 2017	1,320	1,349
December 2018	1,344	1,335
December 2019	1,397	1,471
December 2020	1,352	1,249
December 2021	1,373	1,264
December 2022	1,397	1,266
December 2023	1,411	1,248
December 2024	1,458	1,296

Source: CBBH

In 2024, the CBBH continued to maintain the Central Register of Credits of natural persons and legal entities (CRC), which provides financial institutions users of this database with information on the credit history and current indebtedness of their existing or potential clients and thus enables them to better assess risks when making decisions on granting investments.

The CBBH also continued to maintain the Single Registry of Business Entities' Accounts (SRBEA) in BH, in which 275,552 active and 105,624 blocked accounts were recorded at the end of 2024. After upgrading the system at the end of 2018, SRBEA contains all accounts of business entities that perform payment transactions in BH through accounts opened in banks and the CBBH. SRBEA is primarily used by commercial banks, tax authorities, administrative bodies, law enforcement authorities and other levels of government when revealing financial structures and transactions that companies and natural persons can use illegally, e.g. to avoid paying taxes, money laundering, etc. The Register also provides information to all legal and natural persons who must seek payment of their claims through authorised institutions.

International clearing of payments between banks from Bosnia and Herzegovina and the Republic of Serbia and Montenegro continued in 2024, and a total of 12,779 payment orders worth 392.9 million euros were processed through the system, which indicates the active use of this platform for settlement of payment transactions.

6.2. Regulatory framework

In the course of 2024, the Central Bank of Bosnia and Herzegovina actively continued to carry out activities on the modernisation of payment systems in Bosnia and Herzegovina through the role of coordinator regarding the accession of Bosnia and Herzegovina to the Single European Payment Area (SEPA). Entry into the SEPA payment system is one of the priorities of the Growth Plan for the Western Balkans, as well as a significant step forward in the modernisation of payment systems, bearing in mind many benefits of the mentioned payment system, which are reflected in the reduction of fees for cross-border payments, better connections with the diaspora, the reduction of informal cash flows as well as the attraction of foreign investments. Also, the Central Bank of Bosnia and Herzegovina, in cooperation with the Central Bank of Italy, is working on the establishment of the TIPS (TARGET *Instant Payment Settlement*) mechanism, which is an instant payment in euros and thus enables employers, businessmen or other users of payment services to offer their clients the transfer of funds in real time every day of the year in the fastest possible time period.

In September 2024, the Governing Board of the CBBH adopted the Decision on changes to the Decision on determining the tariff of fees for services provided by the CBBH. The goal of adopting the Decision is to speed up transactions with greater transparency and efficiency of payment transactions, standardise the costs of payment transactions, enable easier cost management and simplify the calculation of fees for payment transactions while additionally improving the quality of services offered by commercial banks to their clients. By introducing a single fee for performing payment transactions in the giro clearing system and real time gross settlement (RTGS), commercial banks in Bosnia and Herzegovina are enabled to act uniformly regardless of the time interval of settlement of interbank transactions. Also, in order to stimulate depositors of the Central Bank of Bosnia and Herzegovina to use electronic banking, the Decision on Amendments to the Decision on Establishing the Tariff of Fees for Services Provided by the Central Bank of Bosnia and Herzegovina also changes the fee tariff for operations with depositors in the part that refers to the use of electronic banking. The aforementioned Decision entered into force on 1 November 2024.

In order to make the interest rate risk management system in the banking book as efficient as possible (Interest Rate Risk in the Banking Book - IRRBB), the Banking Agency decided on minimum standards for the establishment of an interest rate risk management system in the banking book[28], measuring risk using

[28] *Decision on amendments to the Decision on interest rate risk management in the banking book (Official Gazette of FBiH, 48/25); Decision on interest rate risk management in the banking book (Official Gazette of RS, 06/24).*

a standardised approach and a supervisory test of atypical values, as well as determining internal capital requirements for interest rate risk in the banking book and internal controls for interest rate risk management, which began to be implemented on 30 June 2025.

After the Law on Electronic Money of RS was published in the Official Gazette of RS in January 2024, the BARS adopted a set of by-laws in October 2024 that regulate the work and enable the licensing of companies for the issuance of electronic money[29], in accordance with the said Law. These by-laws establish a regulatory framework that additionally regulates the domestic market and introduces modern financial services from the international market. With the adoption of the aforementioned by-laws, prerequisites were created for the development of new digital financial services on the domestic market by regulating the procedure for obtaining a license and the operation of a company for the issuance of electronic money. After the regulatory framework that recognises the use of electronic money was established, the BARS granted a license for business in RS to a company dealing with issuing digital money.
In September 2024, with the aim of mitigating the negative economic consequences caused by the difficult business conditions of companies in RS, which are affected by the difficult economic situation and whose operations are limited, BARS adopted the Decision on temporary measures for granting relief to natural persons for the settlement of credit obligations[30]. The aforementioned Decision prescribes temporary relief for natural persons in the process of settling credit obligations. Also, the BARS adopted the Decision on a temporary measure to preserve the bank's capital[31] in order to strengthen the capital base of banks in conditions of economic instability, which introduces the obligation to submit a request by the bank and give consent by the BARS for the payment of profits generated in the previous business year with the aim of increasing the bank's resistance to financial shocks.

In order to mitigate the risks arising after the natural disaster in October 2024, which affected a certain number of municipalities in the Federation of Bosnia and Herzegovina, and in April 2025 in Republika Srpska, the Banking Agencies adopted temporary decisions on special measures applied by banks in extraordinary circumstances[32] with the aim of mitigating negative economic consequences and preserving the stability of the banking sector by granting relief to bank clients who are directly or indirectly affected by the negative consequences of extraordinary circumstances and special rules for credit risk management, which the bank applies in case it approves special measures for the client. In order to preserve the stability of the banking sector, in the course of 2024, the banking agencies extended the Decisions on temporary measures to mitigate the risk of interest rate growth[33] until 31 December 2025.

In accordance with legal provisions, and with the aim of maintaining the equivalence of the domestic regulatory framework with the EU, preserving and strengthening the stability of the banking system and limiting systemic risks, as well as timely management of credit risk and increasing the resilience of banks, the competent banking agencies in BH have adopted decisions on the method or methodology for determining systemically significant banks and the protective layer of capital for systemically significant banks in the fourth quarter of 2024[34], which is explained in more detail in Text Box 5.

Text Box 5: Concept, meaning and methodology for identifying systemically important banks

One of the prerequisites for successfully preserving financial stability is the timely identification of systemic risks. Although there is no single definition of the term *systemic risk*, according to the definition of the European Central Bank, systemic risk is the risk that financial instability will become so widespread that it will disable the functioning of the financial system and create negative consequences for the real economy, i.e. threaten economic growth and the well-being of society. Shocks that act as a trigger for the development of such an event can be exogenous and endogenous. The source of an exogenous shock is outside the financial system (e.g. natural disasters, pandemics, war), or it can be related to the economy (e.g. macroeconomic disruptions, i.e. the accumulation of excessive macroeconomic imbalances), while an endogenous shock occurs within the financial system itself and can be caused by the collective behaviour of financial institutions or a single significant financial institution.

[29] *The Law on Electronic Money of Republika Srpska (Official Gazette of RS, 1/24).*

[30] *Decision on temporary measures for granting relief to natural persons for the settlement of credit obligations (Official Gazette of RS, 84/24).*

[31] *Decision on a temporary measure to preserve the bank's capital (Official Gazette of RS, 84/24).*

[32] *Decision on special measures applied by banks in extraordinary circumstances - floods from October 2024 (Official Gazette of the Federation of Bosnia and Herzegovina, 79/24); Decision on temporary measures for banks to mitigate negative economic consequences caused by extraordinary circumstances - floods from March/April 2025.*

[33] *Decision on amending the decision on temporary measures to mitigate the risk of interest rate growth (Official Gazette of the Federation of BiH, 41/24), Decision on amending the decision on temporary measures to mitigate the risk of interest rate growth (Official Gazette of RS, 95/24).*

[34] *Decision on the method of determining a systemically significant bank and protective layer of capital for a systemically significant bank (Official Gazette of the Federation of BiH", 96/24) and a Decision on the method of determining systemically significant banks and a protective layer of capital for systemically significant banks (Official Gazette of Republika Srpska, 109/24) and a Decision on a protective layer of capital for systemically significant banks (Official Gazette of Republika Srpska", 109/24.*

The financial system is extremely sensitive and vulnerable to the impact of systemic risks due to the specific structure of banks' balance sheets, which are dominated by short-term liabilities/deposits and credit investments with longer maturities, resulting in the maturity transformation risk for banks. The complex interconnection of financial institutions (e.g. based on exposure on the interbank market, through payment systems or investments in instruments of these financial entities) also causes the rapid spread of shocks throughout the entire system. In addition, the value of financial instruments is strongly influenced by the expectations and confidence of participants in financial markets.

Systemic risk and its contagious spread are often associated with the existence of systemically significant financial institutions. A systemically significant bank is a bank whose financial condition deteriorates or ceases to operate, which would have serious negative consequences for the stability of the financial system. For this reason, it is necessary to take measures regarding the special treatment of these institutions in relation to other institutions, considering their importance for financial stability.

Since 2011, the Financial Stability Board (FSB) of the G-20 member states, in cooperation with the Basel Committee on Banking Supervision (BCBS) and national authorities, has been identifying global systemically important banks (G-SIBs). Global systemically important institutions are large, internationally active and highly interconnected institutions that can influence the stability of the global financial system. The Financial Stability Board (FSB) publishes their list every year on its website. The European Banking Agency (EBA) has been providing guidelines for the identification of systemically important financial institutions within the EU since 2014. In accordance with the aforementioned guidelines, national competent authorities are obliged to identify global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIss), which are key to national economies and national financial systems.

The methodology for determining the list of systemically important banks in the FBH and RS was created as a result of the need to differentiate systemically important banks in BH from other banks in the system. It is also important to emphasise that the methodology is aligned with the best international practices based on the principles of the Basel Committee on Banking Supervision, adapted to the specifics of the banking system in BH.

Systemically important banks are determined based on the following four criteria: size, connection with other participants in the financial sector, substitutability in the financial sector and complexity of operations. In accordance with the decisions of the competent banking agencies, the size criterion is determined on the basis of only one indicator, with an associated weight of 25% in the total value of the coefficient, while the criteria of connection, interchangeability and complexity are determined on the basis of three groups of different indicators, with an associated weight of 8.33% in the total value of the coefficient. An overview of criteria, indicators and associated weightings is shown in table TO 5.1.

Table TO 5.1: Criteria for determining systematically important banks in BH

Criterion	Indicators Adapted BCBS approach for BH	Weight of indicator
Size	Total assets (net)	25%
Connection	Deposits of banks and non-banking financial institutions (residents)	8.33%
	Loans to banks and non-banking financial institutions (residents)	8.33%
	Uninsured deposits (except of deposits of general state, banking institutions and other financial institutions)	8.33%
Replaceability	Deposits of households and private companies (residents)	8.33%
	Loans to households and private companies (residents)	8.33%
	Value of interbank non-cash payment transactions	8.33%
Complexity	Debt securities (residents)	8.33%
	Liabilities towards non-residents	8.33%
	Claims on non-residents	8.33%

Based on the corresponding ranges of the bank's systemic importance coefficient, the obligation to maintain a capital buffer for a systemically important bank is determined. The capital buffer for a systemically important bank is a macroprudential instrument aimed at improving the loss-absorbing capacity of systemically important institutions, i.e. limiting the spread of contagion that may arise from insolvency or general stress situations of systemically important institutions. Entity agencies will determine the capital buffer rate for a systemically important bank in the range of 0% to 3% of the total amount of the bank's risk exposure, depending on the value of the bank's systemic importance coefficient. Systemically important banks are required to maintain an additional capital buffer in the form of common equity tier 1 capital. The agencies will determine and update once a year the list of systemically important banks in the FBH and RS, no later than the end of the current year, and based on bank data on an individual basis up to the end of the previous year.

In mid-May 2025, the National Assembly of Republika Srpska adopted the Law on Amendments to the Law on Banks[35], which determines the gradual reduction of the regulatory capital adequacy ratio from 12% to 10%, starting on 31 December 2026. Also, with the referenced amendments to the Law, it is foreseen that the Agency can determine the reference interest rate of the average cost of financing the banking sector of Republika Srpska, which can be contracted as a variable element of the variable nominal interest rate, and that the Agency passes an act regulating the method of calculating the reference interest rate. Among other things, the adopted amendments to the above-mentioned Law introduce a ban on the collection of several types of fees charged by banks to their clients. According to the adopted amendments to the Law, banks will no longer have the right to charge fees for sending reminders due to late payment of obligations, fees related to the maintenance of the credit sub-account or internal book entry procedures.

[35] *Law on Amendments to the Law on Banks of Republika Srpska, (Official Gazette of RS, 45/25).*

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STATISTICAL APPENDIX

Table A1: Real Estate Price Index (2015=100)

		Sarajevo	Mostar	Zenica	Tuzla	Banja Luka	Bijeljina	Trebinje	TOTAL
2004	Q1	58	71	47					**60**
	Q2	58	70	46					**59**
	Q3	58	70	47					**59**
	Q4	59	68	46					**60**
2005	Q1	61	66	48					**61**
	Q2	61	70	47					**61**
	Q3	63	67	47					**62**
	Q4	66	70	50					**65**
2006	Q1	69	72	53					**68**
	Q2	74	71	49					**71**
	Q3	73	70	52					**70**
	Q4	80	60	55					**74**
2007	Q1	87	73	56					**83**
	Q2	98	76	67					**93**
	Q3	108	73	72					**98**
	Q4	117	77	74					**105**
2008	Q1	125	85	78	95				**112**
	Q2	133	82	84	98				**119**
	Q3	132	83	88	106				**120**
	Q4	138	87	99	107				**126**
2009	Q1	129	104	101	97				**120**
	Q2	120	101	100	100				**114**
	Q3	115	105	100	107				**112**
	Q4	111	104	93	115				**109**
2010	Q1	111	100	99	112				**108**
	Q2	111	110	101	110				**110**
	Q3	107	104	99	105				**106**
	Q4	106	106	107	104				**106**
2011	Q1	105	107	105	97				**105**
	Q2	105	103	107	89				**103**
	Q3	104	98	102	91				**102**
	Q4	105	104	102	89				**103**
2012	Q1	105	112	101	102				**106**
	Q2	104	101	109	96				**103**
	Q3	101	104	95	94				**100**
	Q4	100	101	103	96				**100**
2013	Q1	101	108	105	93				**102**
	Q2	99	109	104	90				**100**
	Q3	98	105	97	94				**99**
	Q4	97	109	106	90				**99**
2014	Q1	98	104	98	95				**99**
	Q2	96	102	97	93				**97**
	Q3	98	94	99	99				**98**
	Q4	98	96	101	92				**98**

		Sarajevo	Mostar	Zenica	Tuzla	Banja Luka	Bijeljina	Trebinje	TOTAL
2015	Q1	98	101	100	98	93	102	103	**98**
	Q2	101	99	99	101	109	82	97	**101**
	Q3	98	103	102	100	101	92	99	**100**
	Q4	102	97	99	100	101	118	101	**101**
2016	Q1	98	94	97	96	96	68	106	**97**
	Q2	99	97	104	99	102	93	100	**100**
	Q3	102	114	101	96	106	89	106	**104**
	Q4	103	113	104	98	106	94	105	**105**
2017	Q1	103	110	104	97	100	93	98	**102**
	Q2	104	96	105	97	98	94	89	**100**
	Q3	103	104	104	103	98	102	102	**102**
	Q4	107	93	105	100	96	100	97	**102**
2018	Q1	107	103	103	100	100	96	103	**104**
	Q2	108	110	102	100	98	100	101	**105**
	Q3	108	104	102	102	98	99	108	**105**
	Q4	109	106	102	104	100	98	108	**106**
2019	Q1	112	105	106	103	104	97	111	**108**
	Q2	113	110	109	109	97	99	106	**109**
	Q3	112	109	113	109	97	102	108	**108**
	Q4	115	108	107	108	100	104	110	**111**
2020	Q1	115	109	112	110	95	103	107	**111**
	Q2	116	122	125	103	101	109	94	**113**
	Q3	117	113	123	118	100	104	114	**114**
	Q4	118	106	121	117	96	102	103	**113**
2021	Q1	119	112	123	121	103	99	124	**116**
	Q2	121	117	127	120	109	105	122	**118**
	Q3	124	113	126	126	112	111	133	**121**
	Q4	128	107	131	130	113	117	132	**125**
2022	Q1	138	114	134	136	128	127	128	**133**
	Q2	141	123	139	137	126	126	138	**136**
	Q3	149	127	144	137	133	139	136	**142**
	Q4	156	129	141	139	143	131	145	**148**
2023	160	119	157	157	150	135	158	151	**133**
	168	125	175	166	143	147	155	158	**136**
	179	130	178	177	150	150	176	168	**143**
	180	133	178	184	153	146	194	171	**148**
2024	Q1	178	136	181	182	164	169	169	**171**
	Q2	192	143	195	184	163	169	208	**181**
	Q3	203	160	191	193	170	179	178	**191**
	Q4	202	164	223	195	170	184	147	**191**

Source: CBBH

Table A2: Financial Soundness Indicators

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital adequacy												
Tier 1 ratio	15.2	14.3	13.8	15.0	14.8	16.5	17.5	18.1	18.7	18.7	18.7	18.7
Regulatory capital ratio	17.8	16.3	14.9	15.8	15.7	17.5	18.0	19.2	19.6	19.6	19.7	19.8
CET 1 ratio	n/a	n/a	n/a	n/a	n/a	16.5	17.5	18.1	18.7	18.7	18.7	18.7
Financial leverage ratio	n/a	n/a	n/a	n/a	n/a	n/a	10.5	10.2	10.0	9.9	10.1	10.6
Non-performing loans reduced by the provisions to regulatory capital	26.4	24.6	24.9	17.6	13.5	11.4	9.6	7.4	7.0	4.7	3.8	3.2
High exposure in relation to capital	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	81.4	83.8	103.3	95.3
Assets quality												
Non-performing assets to the total assets	11.3	10.5	10.0	8.3	7.1	6.2	5.2	3.4	3.2	2.5	2.1	1.8
Non-performing loans to the total loans	15.1	14.2	13.7	11.8	10.0	8.8	7.4	6.1	5.8	4.5	3.8	3.2
Provisions for NPL to non-performing loans	66.7	69.7	71.2	74.4	76.7	77.4	77.0	78.4	78.4	81.4	81.7	80.3
Loans concentration by economic activity	n/a	n/a	n/a	n/a	n/a	n/a	73.1	72.0	71.3	71.7	71.2	71.1
Profitability												
Return on average assets	-0.1	0.8	0.3	1.1	1.4	1.3	1.4	0.7	1.3	1.6	2.0	2.2
Return on average equity	-1.2	4.5	0.9	6.2	9.0	8.5	9.1	5.6	9.6	12.0	15.0	16.0
Net interest income to the total income	62.3	61.6	62.0	60.4	58.3	58.8	56.8	56.0	59.2	56.6	63.3	61.2
Income from financial instruments trading to total income	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.0	0.0	-0.1
Non-interest expenses to the total income	101.2	85.7	94.5	80.7	73.3	74.0	71.0	83.0	60.1	55.7	52.6	51.3
Costs of wages and contributions to non-interest expenses	28.1	32.9	29.2	31.5	32.9	33.2	34.1	29.8	43.8	44.1	42.8	42.5
Liquidity												
Liquid assets to total assets	26.2	26.6	26.2	26.9	28.1	29.3	29.2	28.6	30.7	30.5	29.0	28.2
Liquid assets to short-term financial liabilities	65.9	65.6	61.9	61.6	59.9	60.4	61.0	51.3	51.3	48.4	47.2	45.8
Liquidity coverage ratio (LCR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	216.9	213.8	218.1	231.9
Net stable funding ratio (NSFR)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	168.8	163.5	159.9	159.7
Deposits to loans	87.2	92.4	96.9	101.7	105.1	109.6	112.7	120.7	130.3	130.8	131.0	130.1
Short-term financial liabilities to the total financial liabilities	47.2	48.1	50.3	52.1	55.7	57.2	56.2	65.4	68.8	72.6	71.1	71.8
Foreign exchange risk												
Indexed and foreign currency loans to the total loans	68.8	68.0	67.1	62.6	60.1	56.7	53.9	53.9	50.2	43.3	37.6	31.9
Liabilities in foreign currencies to the total financial liabilities	63.8	62.7	60.3	57.4	55.1	53.3	50.7	48.1	44.4	42.5	41.2	40.0
Net open position	5.7	9.0	8.3	1.6	-0.2	2.1	3.4	4.2	4.0	1.0	1.5	3.6
Number of banks	23	23	23	23	23	23	23	23	22	21	21	21

Source: CBBH

Note: Compilation of FSI for the banking sector of BH from the fourth quarter of 2021 is based on the IMF 2019 Financial Soundness Indicators Compilation Guide (FSI 2019 Guide).

The values of the indicators have been retroactively recalculated for all the periods in line with the new methodology.

Table A3: Overview of the Total Assets, Loans, Deposits and Financial Performance of Banks in BH, 31 December 2024

	Bank	Total assets		Loans		Deposits		Gain/loss	
		amount	%	amount	%	amount	%	amount	%
1.	Privredna banka Sarajevo d.d. Sarajevo	663,017	1.5	405,268	1.6	535,756	1.6	11,537	1.4
2.	UNION banka d.d. Sarajevo	1,282,042	3.0	555,773	2.2	1,090,053	3.2	5,779	0.7
3.	NLB banka d.d Tuzla	1,959,333	4.6	1,276,255	4.9	1,622,656	4.7	27,574	3.3
4.	ASA banka d.d. Sarajevo	3,348,385	7.8	2,040,217	7.9	2,906,810	8.4	55,835	6.6
5.	"BOSNA BANK INTERNATIONAL" d.d. Sarajevo	1,651,356	3.8	1,117,351	4.3	1,398,033	4.1	26,609	3.2
6.	INTESA SANPAOLO BANKA d.d. Bosna i Hercegovini	2,952,130	6.9	1,928,609	7.5	2,291,244	6.6	26,732	3.2
7.	Raiffeisen bank d.d. Sarajevo	5,673,102	13.2	3,079,342	11.9	4,645,342	13.5	143,320	17.1
8.	Ziraatbank BH d.d.	1,586,668	3.7	1,042,434	4.0	1,189,527	3.5	36,296	4.3
9.	ProCredit bank d.d. Sarajevo	1,052,045	2.5	690,368	2.7	856,949	2.5	8,341	1.0
10.	Sparkasse Bank d.d. Sarajevo	2,372,696	5.5	1,592,885	6.2	1,940,026	5.6	38,538	4.6
11.	Komercijalno investiciona banka d.d. Velika Kladuša	136,711	0.3	59,466	0.2	103,541	0.3	1,938	0.2
12.	Addiko bank d.d. Sarajevo	1,313,951	3.1	604,462	2.3	1,079,048	3.1	24,951	3.0
13.	UniCredit bank d.d. Mostar	8,071,797	18.8	4,708,098	18.3	6,442,821	18.7	185,369	22.1
14.	UniCredit bank a.d. Banja Luka	1,439,269	3.4	819,212	3.2	1,101,559	3.2	33,266	4.0
15.	Addiko bank a.d. Banja Luka	1,076,660	2.5	709,263	2.7	843,041	2.4	21,258	2.5
16.	Naša banka a.d. Bijeljina	336,012	0.8	206,822	0.8	268,286	0.8	2,219	0.3
17.	Nova banka a.d. Banja Luka	3,040,187	7.1	1,897,294	7.4	2,280,618	6.6	86,042	10.2
18.	NLB bank a.d. Banja Luka	2,302,529	5.4	1,291,701	5.0	1,813,692	5.3	56,402	6.7
19.	Atos bank a.d. Banja Luka	1,273,491	3.0	812,457	3.1	955,540	2.8	34,063	4.1
20.	Banka Poštanska štedionica a.d. Banja Luka	556,256	1.3	310,516	1.2	446,534	1.3	1,449	0.2
21.	MF banka a.d. Banja Luka	831,416	1.9	647,899	2.5	644,905	1.9	12,461	1.5
TOTAL		**42,919,053**	**100**	**25,795,691**	**100**	**34,455,981**	**100**	**839,979**	**100**

Table A4: Status Changes in Banks in the Period 2001-Q2/2024

Number	Bank	Type of change	Date of change
1	Sparkasse Bank d.d. Bosna i Hercegovina Sarajevo	Sparkasse Bank d.d. Sarajevo changed its name into Sparkasse Bank d.d. BiH Sarajevo	Q3 2014
	Sparkasse Bank d.d. Sarajevo	ABS banka d.d. Sarajevo changed its name into Sparkasse Bank d.d. Sarajevo	Q3 2009
	ABS banka d.d. Sarajevo	Became a member of Steiermaerkische Bank und Sparkassen AG, Erste Group	Q4 2006
	Šeh-in banka d.d. Zenica	Merged to ABS banka d.d. Sarajevo	Q2 2002
2	Bosna Bank International (BBI) d.d. Sarajevo		
3	Privredna banka Sarajevo d.d. Sarajevo	BOR banka d.d. Sarajevo changed its name into Privredna banka Sarajevo d.d. Sarajevo	Q1 2017
	BOR banka d.d. Sarajevo	Privredna banka Sarajevo d.d. Sarajevo merged to BOR banka d.d.Sarajevo	Q4 2016
	Prviredna banka Sarajevo d.d. Sarajevo	Privredna banka Sarajevo d.d. Sarajevo merged with BOR banka d.d. Sarajevo	Q4 2016
4	UniCredit Bank d.d. Mostar		
	UniCredit Zagrebačka banka BiH d.d. Mostar	UniCredit Zagrebačka banka BiH changed its name into UniCredit Bank d.d. Mostar	Q1 2008
	Zagrebačka banka BH d.d. Mostar	Merging with Univerzal banka d.d. Sarajevo into UniCredit Zagrebačka banka BiH	Q3 2004
	Univerzal banka d.d. Sarajevo	Merger with Zagrebačka banka BH d.d. Mostar into UniCredit Zagrebačka banka BiH	Q3 2004
	HVB Central Profit banka d.d. Sarajevo	HVB Central profit banka Sarajevo merged to UniCredit Zagrebačka banka BiH	Q1 2008
	HVB banka d.d. Sarajevo	Merger with Central Profit banka into HVB Central Profit banka d.d. Sarajevo	Q4 2004
	Central Profit banka d.d. Sarajevo	Merger with HVB banka d.d. Sarajevo into HVB Central Profit banka d.d. Sarajevo	Q4 2004
	Travnička banka d.d. Travnik	Merged to Central Profit banka d.d. Sarajevo	Q4 2002
5	UniCredit Bank a.d. Banja Luka	Nova Banjalučka banka a.d. Banja Luka changed its name	Q2 2008
	Nova Banjalučka banka a.d. Banja Luka	Merged to HVB group, continued its operations as a separate legal entity	Q4 2005
	Banjalučka banka a.d. Banja Luka	Privatised and changed its name into Nova Banjalučka banka a.d. Banja Luka	Q1 2002
6	Addiko Bank d.d. Sarajevo		
	Hypo Alpe Adria Bank d.d. Mostar	Hypo Alpe Adria Bank d.d. Mostar changed its name and seat	Q4 2016
7	Addiko Bank a.d. Banja Luka		
	Hypo Alpe Adria Bank a.d. Banja Luka	Hypo Alpe Adria Bank a.d. Banja Luka changed its name	Q4 2016
	Kristal banka a.d. Banja Luka	Kristal banka a.d. Banja Luka changed its name	Q3 2003
8	ASA banka d. d.Sarajevo		
	ASA banka Naša i snažna d. d.Sarajevo	Merged to ASA bank d.d. Sarajevo	Q4 2022
	ASA banka Naša i snažna d. d. Sarajevo	Sberbank BH d.d. Sarajevo changed the ownership in the process of restructuring.	Q2 2022
	Vakufska banka d. d. Sarajevo	Merged to ASA bank d.d. Sarajevo	Q4 2021
	Investiciono komercijalna banka (IKB) d. d. Zenica	IKB d.d. Zenica changed its name and seat into ASA banka d.d. Sarajevo	Q4 2016
	MOJA banka d. d. Sarajevo	MOJA banka d.d. Sarajevo merged with Investiciono komercijalna banka d.d. Zenica	Q3 2016
	FIMA banka d. d. Sarajevo	Changed its name into MOJA banka d.d. Sarajevo	Q4 2010
	VABA banka d. d. Sarajevo	Changed its name into FIMA banka d.d. Sarajevo	Q3 2007
	Validus banka d. d. Sarajevo	Changed its name into VABA banka d.d. Sarajevo	Q1 2007
	Ljubljanska banka d. d. Sarajevo	Established Validus banka took over a part of assets and liabilities of Ljubljanska banka d.d. Sarajevo	Q3 2006
	ASA banka Naša i snažna d. d.Sarajevo	Sberbank d.d. Sarajevo changed the name into ASA banka Naša i snažna d.d.Sarajevo	Q2 2022
	Sberbank d .d. Sarajevo	ASA Finance d.d. Sarajevo became the owner of Sberbank d.d. Sarajevo	Q1 2022
	Sberbank d. d. Sarajevo	Volksbank d.d. Sarajevo changed the name into Sberbank d.d. Sarajevo	Q1 2013
	Volksbank d.d. Sarajevo	Sberbank group aquired Volksbank d.d Sarajevo	Q1 2012
9	Komercionalno investiciona banka (KIB) d.d. Velika Kladuša		
10	NLB Banka d.d. Sarajevo		
	NLB Tuzlanska banka d.d. Tuzla	NLB Tuzlanska banka d.d. Tuzla changed its seat and name into NLB Banka d.d. Sarajevo	Q1 2012
	Tuzlanska banka d.d. Tuzla	Tuzlanska banka d.d. Tuzla changed its name into NLB Tuzlanska banka d.d.	Q3 2006
	Comercebank bančna skupina NLB d.d. Sarajevo	Merged to Tuzlanska banka d.d. Tuzla	Q3 2006
11	NLB Banka a.d. Banja Luka		
	NLB Razvojna banka a.d. Banja Luka	NLB Razvojna banka a.d. Banja Luka changed its name into NLB a.d. Banja Luka	Q4 2015
	LHB banka a.d. Banja Luka	Merger with Razvojna banka jugoistočne Evrope into NLB Razvojna banka a.d. BL	Q2 2006
	Razvojna banka jugoistočne Evrope a.d. Banja Luka	Merger with LHB banka a.d. Banja Luka into NLB Razvojna banka a.d. Banja Luka	Q2 2006
12	Raiffeisen Bank d.d. BiH, Sarajevo		
	Raiffeisen Bank HPB d.d. Mostar	Merged to Raiffeisen banka d.d. Sarajevo	Q1 2003
13	ProCredit Bank d.d. Sarajevo	Microenterprise bank d.d. Sarajevo changed its name into ProCredit Bank	Q4 2003

Number	Bank	Type of change	Date of change
14	ZiraatBank BH d.d. Sarajevo	Turkish Ziraat Bank Bosnia d.d. Sarajevo changed its name into Ziraat Bank BH	Q1 2013
15	Union banka d.d. Sarajevo		
16	Atos bank a. d. Banja Luka	Sberbank a.d. Banja Luka changed its name into Atos bank a.d. Banja Luka	Q2 2022
	Sberbank a. d. Banja Luka	Nova banka a.d. Banja Luka became owner of Sberbank a.d. Banja Luka, in the process of restructuring.	Q2 2022
	Sberbank a. d. Banja Luka	Volksbank a.d. Banja Luka changed its name	Q1 2013
	Volksbank a. d. Banja Luka	Sberbank group acquired Volksbank a.d. Banja Luka	Q1 2012
	Zepter Komerc banka a. d. Banja Luka	Became a member of Volksbank International AG, changed its name into Volksbank a.d. BL	Q3 2007
17	Intesa Sanpaolo banka d.d. BiH		
	UPI banka d.d. Sarajevo	Changed its name into Intesa Sanpaolo banka d.d. BiH	Q3 2008
	LT Gospodarska banka d.d. Sarajevo	Merged to UPI banka d.d. Sarajevo	Q3 2007
	Gospodarska banka d.d. Sarajevo	Merger with LT Komercijalna banka Livno into LT Gospodarska banka d.d. Sarajevo	Q1 2003
	LT Komercijalna banka d.d. Livno	Merger with Gospodarska banka Sarajevo into LT Gospodarska banka d.d. Sarajevo	Q1 2003
18	Nova banka a.d. Banja Luka	Nova banka a.d. Bijeljina changed its seat	Q3 2007
	Agroprom banka a.d. Banja Luka	Merged to Nova banka a.d. Bijeljina	Q1 2003
19	Naša banka a.d. Banja Luka		
	Naša banka a.d. Bijeljina	Changed its name into Naša banka a.d. Banja Luka	Q2 2024
	Pavlović International Banka a.d. Slobomir Bijeljina	Changed its name into Naša banka a.d. Bijeljina	Q4 2019
	Privredna banka a.d. Doboj	Merged to Pavlović International banka	Q2 2003
	Privredna banka a.d. Brčko	Merged to Pavlović International banka	Q4 2002
	Semberska banka a.d. Bijeljina	Merged to Pavlović International banka	Q4 2001
20	Banka Poštanska štedionoca a.d. Banja Luka		
	Komercijalna banka a.d. Banja Luka	Komercijalna banka changed its name into Banka Poštanska štedionoca a.d. Banja Luka	Q1 2022
	Komercijalna banka a.d. Banja Luka	Banka Poštanska štedionica a.d. Beograd bought Komercijalna banka a.d. Banja Luka	Q4 2021
21	MF banka a.d. Banja Luka		
	IEFK banka a.d. Banja Luka	Changed its name into MF banka a.d. Banja Luka	Q3 2010

	Banks with revoked operating licence since 2002:	Date of change
1	Camelia banka d.d. Bihać	Q1 2002
2	Privredna banka a.d. Gradiška	Q1 2002
3	Ekvator banka a.d. Banja Luka	Q1 2002
4	International Commercial Bank Bosnia d.d. Sarajevo	Q3 2002
5	Banka za jugoistočnu Evropu Banja Luka	Q4 2002
6	Privredna banka a.d. Srpsko Sarajevo	Q4 2004
7	Gospodarska banka d.d. Mostar	Q4 2004
8	Ljubljanska banka d.d. Sarajevo	Q3 2006
9	Hercegovačka banka d.d. Mostar	Q3 2012
10	Postbank BH Poštanska banka BiH d.d. Sarajevo	Q2 2013
11	Bobar banka a.d. Bijeljina	Q4 2014
12	Banka Srpske a.d. Banja Luka	Q2 2016
13	Vakufska banka d.d. Sarajevo	Q4 2021
14	ASA banka Naša i snažna d.d.Sarajevo	Q4 2022

Source: CBBH

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